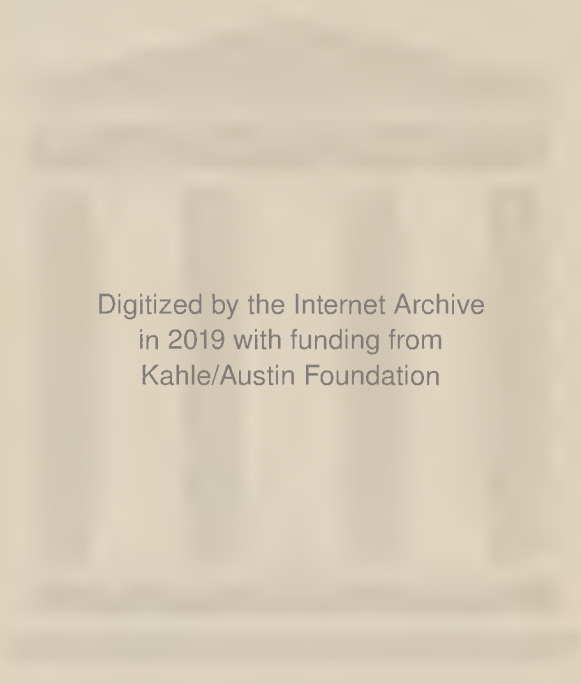


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SOME ECONOMIC
CONSEQUENCES OF
THE GREAT WAR

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SOME ECONOMIC CONSEQUENCES OF THE GREAT WAR

By

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SELECTED DATES

RELATING TO GREAT BRITAIN UNLESS OTHERWISE STATED

Year.	General.	Strikes and Lockouts.	Bank Rate, London.
1918	Nov. 11. Armistice.	July 16 to Aug. 15 and 20.	5 per cent.
1919	Feb. 27. Industrial Conference, <i>London</i> . ¹	Yorkshire Coal.	during 1919.
	March 3. Sankey Coal Commission.	Sept. 22 to Jan. 22. Iron	
	June 28. Peace Treaty signed at <i>Ver- sailles</i> .	Moulders.	
	Oct. 29. International Labour Con- ference, <i>Washington</i> . ²	Sept. 25 to Oct. 5. Railway.	
	December. Cunliffe Currency Com- mittee Report.	Oct. 31 to Dec. 10. U.S.A. Coal.	Nov. 6. 6.
1920	June 4. Hungarian Peace Treaty.		April 5. 7
	Aug. 9. Unemployment Insurance Act.	Oct. 18 to Nov. 4. Gen- eral Coal.	
	Sept. 24. International Financial Con- ference, <i>Brussels</i> . ³		
	Nov. 15. First Assembly of the League of Nations.	April 11 to July 1. General Coal.	April 28. 6½
1921	June 11. Irish Peace Conference.	June 6 to 24. General Cotton.	June 23. 6
	June 19. British Population Census.		

1922	Aug. 31. Official Termination of the War.	July 21. 5½
	Nov. 6. Anglo-Irish Treaty signed.	Nov. 3. 5
	Jan. 6-13. <i>Cannes</i> Conference of Allied Powers. ⁴	Feb. 6. 4½
	Jan. 16. Irish Free State came formally into being.	April 13. 4
	April 10-19. <i>Genoa</i> Conference of Powers. ⁵	June 15. 3½
1923	Nov. 15. Conservative Government.	July 13. 3
	Jan. 8. French occupied Ruhr district.	
	Feb. 1. Anglo-American debt terms settled.	
	April 1. Irish Free State excluded from U.K. in Trade Returns.	July 5. 4

CONFERENCES

¹ General Conference of Employers' and Workmen's Associations. Recommended 48 hours' week and minimum wage.

² Recommended universal regulation of hours of work on the basis of a 48 hours' week.

³ Considered the means of restoring European currencies (39 States, including allies, ex-enemies, and neutrals represented).

⁴ Discussed reparations. Decided to hold Genoa Council.

⁵ Considered the means of restoring European trade, especially with Russia. Former enemy powers represented.

Year.	General.	Strikes and Lockouts.	Bank Rate, London.
1924	Nov. 24. German mark stabilized at 4,200,000,000,000 marks = \$1.	July 7 to Aug. 22. Building.	May 5. 5 Aug. 6. 4½ Oct. 1. 4 Dec. 3. 5
	Jan. 22. Labour Government.		
	April 9. <i>Dawes</i> Reparations Report.		
	Aug. 16. <i>London</i> Conference, ¹ <i>Dawes</i> Scheme accepted.		
	Oct. 29. Conservative Government.		
1925	May 1. Return to Gold Standard (British).	May 1 to Dec. 1. Coal. May 4 to 12. General.	April 21. 4½
	July 31. Government subsidy to Coal.		
	September. Samuel Coal Commission appointed.		
	Oct. 16. <i>Locarno</i> Conference ² agreement.		
1926	Aug. 23. German Mark open to free exchange.	May 1 to Dec. 1. Coal. May 4 to 12. General.	April 21. 4½
	Sept. 8. Germany admitted to the League of Nations.		
	Oct. 25. Belgian currency stabilized.		
1927	May 4. World Economic Conference at <i>Geneva</i> . ³	May 1 to Dec. 1. Coal. May 4 to 12. General.	April 21. 4½
	Aug. 26. Argentina returned to gold standard.		
	Oct. 13. Poland returned to gold standard.		

1928	Dec. 22. Italy returned to gold standard.		
	May 1. Norway returned to gold standard.		
	May 14. Greek currency stabilized.		
	June 14. French currency stabilized.		
	Aug. 27. Kellogg Peace Pact signed.		
	Nov. 22. Treasury note issue taken over by Bank of England.		
	December. Distress in Mining Areas.		
1929	Jan. to May. Reparation Conference at <i>Paris</i> . ⁴	July 29 to Aug. 15. Cotton.	Feb. 7. 5½
	June 5 or 8. Labour Government.		
	Aug. 31. <i>Hague</i> Conference. ⁵	Sept. 26. 6½	
	September. Crisis in New York Stock Market.	Oct. 31. 6	
		Nov. 21 5½	
1930	January. Reparation and Debt agreement. ⁶	Dec. 12. 5	
		Feb. 6. 4½	

CONFERENCES

¹ Definition of reparations and method of payment. The "Dawes" scheme.

² Peace and security pacts in Europe, leading to Germany's admission to the League of Nations. ³ Recommended greater freedom of transport and trade.

⁴ Reconsideration of reparations. The "Young Plan."

⁵ Adopted the "Young Plan" with modifications and settled dates of evacuation of the Rhineland. ⁶ Settlement of reparations on the "Young Plan."

CHAPTER I

INTRODUCTION

“ Prepare war ; stir up the mighty men ; let all the men of war draw near, let them come up. Beat your ploughshares into swords, and your pruning hooks into spears ; let the weak say I am strong . . . Let the nations bestir themselves ” (Joel iii).

“ They shall beat their swords into ploughshares, and their spears into pruning hooks ; nation shall not lift up sword against nation, neither shall they learn war any more. But they shall sit every man under his vine and under his fig-tree ; and none shall make him afraid ” (Micah iv).

“ The post-war uneasiness is the result of complex elements ; in the economic sphere, the necessity of the adaptation of industries and the passage from war to peace economy ; in the political sphere, parliamentary difficulties and misconception of the policies of other countries ; in the social sphere, general inclination to post-war indolence, tendency of the different classes to exceed their incomes, discontents and revolutionary agitations. This complex of facts is found, to some extent and with different characteristics, in most of the European nations . . .

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To the post-war disorganization there was added the crisis of 1920.”¹

The title of this study is more pretentious than its contents. To deal adequately with the economic consequences of the war would not only require an encyclopædic knowledge of facts, but also an intimate acquaintance with the dominant industrial and social tendencies of all the belligerent and some of the neutral nations. Further, since economic have always been connected with political movements, and, with the parallel growth of nationalism and internationalism this connection is closer than before the war, it would be necessary to trespass into the region of politics before the task was completed, nor could the changes in moral and religious practice and sentiment be overlooked. It is perhaps not a limitation that the account cannot be taken beyond the year 1929, for this is common to all history; the effects of the principal wars in the eighteenth and nineteenth centuries can still be clearly traced and their ultimate influence cannot be known.

¹ *Contribution à l'Etude de l'Economie et des Finances Publiques de l'Italie depuis la Guerre.* F. Perrou (freely translated).

INTRODUCTION

This study relates principally to the United Kingdom, with a slighter account of changes in France, Germany and some other European countries, and as regards particular aspects, in the United States; Russia is omitted, if only because political and economic events cannot be disentangled. The more imponderable tendencies are lightly touched, and emphasis is laid on those phenomena that come within the domain of Economics as the science of wealth, and which are susceptible of measurement, excluding sociological and psychological aspects. The book is in fact based chiefly on statistics. Even within this region the subjects of currency and national finance are only summarily handled, for anything like a complete treatment of either could only be made by a specialist with adequate space at command.

Within the subject, thus limited to measurable changes in nearer Europe and the United States, there is evidently ample scope for investigation and report, if the data are sufficient, that is, if the measurable has in fact been measured; but here we are hindered by the imperfection of national and international statistics. Of the topics discussed in the sequel, it is

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only in the cases of population, of trade and of production of some commodities that the statistics are reasonably accurate and adequately defined. For currency and prices there are indeed copious data, but for many technical reasons they may readily become misleading. Estimates of income, capital, and production in general are in most cases either absent or uncertain. Unemployment cannot be adequately measured except perhaps in Great Britain and Germany. Wage statistics provide a host of difficult problems. It is hard enough to understand and to ascertain the statistics even of one country after continuous and close study of them; and the task of making comparative measurements for a group of countries would be impossible, were it not for the very careful work done by or under the auspices of the League of Nations and the International Labour Organization. For apart from the difficulty of mastering the statistical methods of countries other than one's own, there is the awkward doubt whether in all cases even the official statistics are impartial or their interpreters unbiased. Statistics have increasingly become weapons of propaganda in the hands

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of politicians and nationalist writers, and some of the newly-created States are strongly nationalist and self-conscious, and are desirous of publishing only those data which show in some cases their importance, in other cases their needs. Add to all these difficulties the changes in boundaries which destroy the comparability of national statistics between pre-war and post-war years, and enough has been said to show how arduous is the task and with what diffidence and hesitation it must be approached.

Tendencies and movements, however, can often be observed without exact measurement. The plan of this book is to review in turn the main regions where modifications are to be expected and explore them as far and as accurately as information allows. There is no doubt about the direction and date of the principal economic changes of the past fifteen years, and it is not always essential to have exact measurements of their magnitude.

For comparative purposes it is expedient to select some date by which the consequences of the war may be held to have completed their first phase. The war ended officially on August 31st, 1921. The

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settlement of reparations on what may be a semi-permanent basis was not completed till January 1930. The complete stabilization of European currencies was only reached in June 1928, when France fixed the value of the franc in gold. But by this time we are in the presence of post-war developments; we can hardly hold that the collapse on the New York Stock Exchange in the autumn of 1929 was a direct consequence of the war, though no doubt it is ultimately connected with the debts from Europe to America that originated in it. A convenient date to take when information allows, is 1924. The post-war unsettlement, summarized in the third quotation at the head of this chapter, had to a great extent disappeared. The recession after the boom in prices and trade of 1919-20 was practically complete, for prices were temporarily stable before a further and much more moderate fall. Unemployment in Great Britain had reached a temporary minimum. Many currencies had been again related to gold, and national frontiers were settled. Subsequent changes were more and more the results of conditions not directly attributable to the war. But the selection of any

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date is arbitrary and a glance at the Table of Dates (pp. 10-13) shows that many events traceable to the war were in 1924 still in the future.

Though it is futile to try to distinguish absolutely between changes that were due to the war and those which were independent of it, some guidance can be obtained by watching parallel movements in neutral nations, though all suffered some disturbance in trade and other respects—for example, the housing shortage in 1919 was world-wide—and for this reason statistics of Sweden and other neutral countries are sometimes introduced. Perhaps some order of dependence can be obtained by classifying developments as (*a*) mainly unconnected with the war, (*b*) accelerated or retarded by it, (*c*) apparently rising out of it.

In the first class, for instance, we should put the great increase in petrol-driven traffic by land and sea, and the development of wireless transmission and of the cinematograph, the use of artificial silk and most of the technical progress in industry and in invention, as well as the more theoretical scientific discoveries. Also in Chapter II it appears that the falls in the birth- and death-rates owe little to the war.

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In the second class we must also include some mechanical and scientific developments, such as aviation and the fixation of the nitrogen of the air for use in agriculture, since these were stimulated by war necessities. The economic position of women and their more complete enfranchisement and independence with its multiform consequences, would no doubt have developed in a different manner if their claims had not been substantiated by their ability to replace men. In a somewhat similar way the services of all ranks in the Army and Navy, and the more general intermixture of classes, stimulated the sentiment of democracy and led to a more serious realization of possibly avoidable economic inequalities and hardships, thus paving the way for the development of the insurance schemes and of more socialistic legislation. We are on less certain ground if we try to connect with the war the tendency to larger, even international, units in industry and the modern ideas of industrial rationalization.

In the third class we must undoubtedly place the destruction of life, with the consequent check on population and the change in its proportion in sex and age ;

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the destruction of capital and its subsequent scarcity; the increased burden of taxation and the partial redistribution of income; the new economic relation between Europe and the United States; and, of course, the less permanent disturbances in prices and trade which are described in subsequent chapters. It is not possible to distinguish at all completely between temporary and permanent changes. After the disturbance to equilibrium of national and international economic relations that continued violently for four years, oscillations and minor perturbations were certain to take place before a new equilibrium was reached. Before the war there was much that was unstable and changing, so that there is no general reason to suppose that, after a violent movement, there were sufficiently strong permanent forces to bring back the original position. Nor can we decide whether any position of rest that is reached is one of new relatively stable equilibrium or whether there will be further reversion to the pre-war position or a movement to a new set of relations in harmony with new conditions. Here we can only attempt to trace the sequence and, to some extent, the causes of the

economic movements of the past ten years without attempting to see far into the future.

So far as this book is a narrative, the story begins with the year after the Armistice. In taking stock of the position then we have to consider the actual loss of men by death and the incapacitation of some survivors and the check to births, and similarly the actual destruction of wealth, the deterioration of buildings and plant and the absence of normal progress, and the great injury to the immaterial or potential wealth that consists of the delicate organization of trade, especially international trade. Each of these categories of loss has effects far-reaching in time. The gaps in the general age-distribution in the classes of males of fighting age during the war, and of male and female children now 12 to 16 years old, will continue to disturb the balance of sex and age for more than a generation. The actual destruction of capital and injury to land and the concentration of all efforts for four years on munitions, made to be destroyed, or on primary necessities, and the absence of normal developments to meet the needs of the growing populations,

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have resulted in dearth and dearness of capital, which still handicap industry. The extraordinary difficulty of quickly re-directing production and trade into the channels proper for peaceful intercourse, and the hindrances to natural development, accentuated by the Reparations problem, by the increase of nationalistic sentiment, and especially by the want of stability in money, are the principal causes of the partial failure of exports and the prolonged unemployment in Great Britain and Germany.

The least reflection should have shown that in 1919 the world was poorer than before the war, and that not only was the actual and visible destruction to be made good, but four years' lost time was to be recovered. The evident need was for sober and industrious efforts for reconstruction. The quotations at the head of this chapter summarize the three phases, the War, the Armistice, and the sequel. It is easy to work up the nations to a fine frenzy for war, and the difficulties of turning industry from peaceful to bellicose ends were overcome to an extent that no one had foreseen. In fact, also, the equivalent of swords could be beaten back into implements of peace,

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for the waste steel existing in 1919 supplied the furnaces for a long period. But the more elaborate process of restoring trade was not so simple, and the "homes fit for heroes", more complicated than a vine and fig-tree, have not yet been provided. These difficulties were not recognized. There was evident and immediate demand for renewal and restoration of buildings, machinery and plant, and replenishment of stocks, and for the great majority of workmen employment was easy to find. But, aided by the mismanagement of the machinery of the supply of money, and impelled by the ignorant and exaggerated hopes of immediate reparations payments from Germany, people believed themselves to be rich and lived extravagantly and created a demand for luxury-goods, whose supply diverted labour and capital from more important tasks. In consequence of all this, when the inevitable crisis arrived, disorganization was perhaps even worse than immediately after the Armistice; and in March 1921, before the disturbance of the coal-strike of that year, more than two million persons in the United Kingdom were unemployed or working short-time. The work of reconstruction had then to

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be taken in hand again in an atmosphere of disappointment and distrust both national and international. The course of events after the battle of Waterloo was closely parallel to those a century later, as described in the note at the end of this Chapter. Then also there was immediate expectation of wealth and trade, a rise of prices and a subsequent collapse, but the parallelism does not continue, for after 1819 the great epoch of British industry and commerce followed, with foreign rivals far behind, while in 1921 England was only one of several industrialized countries competing for a share in the trade of an impoverished world.

The position reached three years after—in 1923 or 1924—is well summarized in the following quotations from the Reports of the Committee on Industry and Trade (Volume on *Survey of Overseas Markets*, pp. 9 and 25).

“ Taking the world as a whole, the widespread development of home manufactures to meet needs formerly supplied by imported goods is by general consent one of the outstanding features of the post-war economic situation, and this is perhaps the most important permanent

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factor tending either to limit the volume or to modify the character of British export trade.

“ In fact, this tendency is a natural and universal one, inseparable from healthy economic progress, and dating from a period long before the war, but undoubtedly the tendency has been stimulated by war conditions and necessities. The cutting off of the usual sources of supply, and the abnormal demand for certain classes of products for war purposes, compelled many countries, including Great Britain, to embark on the manufacture of goods in respect of which they had hitherto been dependent on import. In some cases, the discovery of the extent of that previous dependence caused a deep feeling of uneasiness, especially when the articles in question were considered essential to national security, or to the successful carrying on of staple industries on which large sections of the population depended for employment. Hence, when the return of peace conditions led to the demobilization of war industries, there was in many countries an effort to preserve certain of the industries which had been established or greatly expanded during the war—an

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effort based either on reasons of national security, or vital interest, or on more general grounds of commercial policy. Not only had local vested interests grown up, during the abnormal period of interrupted intercourse, which naturally clamoured for support, but not infrequently industries improvised under pressure of the emergency were found to have struck root and to show capacity for permanent maintenance and growth, with or without the shelter of a tariff or other safeguard."

"We may sum up very shortly the chief practical lessons to be derived from this survey of overseas markets.

"The adverse forces which still operate in the markets themselves to retard the full recovery of British trade are in the main world-forces, which operate with equal intensity against the trade of other exporting countries.

"Broadly speaking, and with minor local exceptions which do not appreciably affect the general situation, British trade is not at present suffering from adverse discrimination as compared with that of other exporting countries, but, on the contrary, it enjoys an equal position in all important foreign markets, together

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with a preferential position in Empire
markets.

“While, however, the main forces with which our trade has to contend are, so far as they arise in the overseas markets themselves, world forces, their effects are felt with special acuteness by a country like Great Britain which depends so greatly on foreign trade to maintain the employment of its population.

“Of the forces referred to, some are transitory, like the instability of exchange, the dearth of capital, the impaired purchasing power and the general financial and economic weakness of our customers, following the Great War. The world is still poorer for the waste of war, and years of hard work will be necessary to re-establish its purchasing power. But given peace and political stability, there is no reason to doubt that recovery will take place. It may also be hoped that such difficulties as arise from unwise measures restricting commercial, maritime or financial intercourse will, in the long run, be mitigated by international agreement, or by national action based on the teachings of experience. But other forces, like the growth of manufacture in the less industri-

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ally developed countries, undoubtedly represent permanent tendencies, with which traders must inevitably reckon in future, and to which it is, therefore, essential that they should strive with all their power to accommodate their outlook, their methods and their organization."

What economic lessons can be learnt from the war and its sequel?

It was held before the war by well-informed people that the inter-dependence between nations and the cosmopolitan nature of commerce would be strong deterrents to the initiation of war on a large scale, and that, even if it began, countries would not only be unwilling to face the loss, but would actually find it impossible to continue hostilities, when their usual sources of supply were cut off. It was found, however, that the martial spirit of nations was easily aroused, and each nation expected to recoup its losses from a defeated enemy; and it was not till some years after the Armistice that it was discovered that, whoever wins on the field, both sides lose in wealth. On the other hand, it was unexpectedly easy not only to mobilize enormous fighting forces, but

also to control and redirect civilian services and industry to the production of goods and rendering of services for new objects and under new types of organization. In the United Kingdom it was possible to obtain sufficient food, even when some sources were stopped and others were hindered; while in Germany with great efforts the troops were fed and a condition of actual famine avoided. Further, it was found that a nation does not need a well furnished arsenal or war-chest, but, so long as credit can be obtained in neutral countries, munitions could be produced in enormous quantities during the actual progress of the war. In brief, economic conditions and requirements do not prevent war.

None the less war is very costly, and the expense, though it can be postponed, must ultimately be met. This expense is the greater in that all ordinary economic checks are removed in war-time by financing by inconvertible paper-money, and in that the advantages of internal and international competition are in abeyance. A national system of production under war conditions is extremely wasteful.

While it is easy to destroy not only goods

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but also goodwill, credit and trade-relations, it is extraordinarily difficult to restore them. For the unnoticed but very complicated system of international credit and finance was the result of a gradual growth during many decades, due to the spontaneous efforts of innumerable individuals, little controlled or directed by governments ; and it is only by a similar gradual process that the system can be reconstructed, even in a condition of international friendship.

If it has been demonstrated that a system of national rationing of some articles of consumption is possible, it has also been proved (as every economist knew) that fixing or even partial control of prices cannot be effective, unless the Government has complete control of the goods in question or is able to enforce adherence to rations. Under other circumstances the fixing of prices has led to the disappearance of goods from the open market.

The effects of cancelling the relation between a nation's currency and gold or some other definite standard were well known to historians and economists before the war. It has again been demonstrated in Russia and in Germany, that the extrava-

gant circulation of paper money may lead to its depreciation to nil value. It has also again been seen that the effect of even a small issue of paper money in raising prices of all exchangeable goods is immediate, and with continued issues rapidly cumulative. But perhaps it was not so generally known that, when the national or government revenue from taxes or loans is smaller than its expenditure and currency is inconvertible, it is inevitable that more paper must be issued by the government to pay its way, and that prices must continue to rise till the national budget balances.

While it is easy to diminish the value of currency, it is difficult even to stop the process, and the return path of deflation (or restoration of value) needs heroic and unpopular methods. It is now realized that the inevitable result of such deflation is unemployment of workers and stagnation of trade, possibly for a considerable period, though the actual chain of causation is not obvious and need not be followed here. It should be added, however, that every disturbance of currency acts inequitably and unevenly on different classes; for example, debtors lose during deflation and creditors during inflation.

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Finally, it may be said that not only is there great ignorance of what is definitely known in the realm of economics, but also so complicated are economic reactions that in many cases experts in the subject disagree. Thus the dangers of disturbance of any existing regime are often unknown, or only known to be considerable.

It has been necessary to use statistics rather copiously in the following treatment and some cautions and explanations must be given. It is not expedient in a book of this nature to describe in detail all the minute definitions, limitations and qualifications, with exact references to sources, that are proper in a statistical report. But without these the reader has to take a very great deal on trust, and cannot explore for himself the methods by which measurements have been made or judge of their adequacy. For example, he cannot judge whether the population of Russia is accurately known, or which of the many ways of measuring price changes has been followed. Many published statistics are definitely misleading, and often sheer guesswork is present where the relevant data have never been collected.

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Great care has been taken to include only those statistics which have been collected by skilled and competent investigators and accepted by good authority. But they are of very varying precision. The death-rate can be known very accurately at the date of a population census, and fairly accurately at all dates; but National Income and National Capital are almost impossible to define, and are subject to a possible error of at least 5 per cent. in the most favourable circumstances. An effort has been made to state the sources of information and to indicate the precision of the measurement. The device of round numbers has been freely used, in the hope of avoiding the spurious accuracy that adheres to more detailed figures. Thus in the table of population and areas the one is given in hundred-thousand persons and the other in 1,000 square miles, instead of suggesting that the area of a country can be measured correctly to an acre, or that a national population can even be defined to a unit.

Even after this care has been taken, indeterminateness of meaning remains and many fallacies could be based on the tables given. The reader is asked not to try to

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use the figures except for the purpose for which they are explicitly given, and not to push any arguments based on them beyond the limits indicated in the context.

NOTE ON THE PERIOD 1815 TO 1820.

The parallelism between the economic events of the years after 1815 and after 1918 can be exhibited as below, where the left hand column consists of Chapter headings from Smart's *Economic Annals of the Nineteenth Century*.

1815 Waterloo	1918 The Armistice
1816 Reaction and Dislocation	1919 Demobilization
1817 Attempts to Account for the Distress	
1818 A Quick Return to Prosperity	1920 The Trade Boom
1819 A Disastrous Year	1921 Collapse of prices and employment
1820 Depression and Partial Revival	1922 Continued unemployment
	1924 Partial revival

The period 1816–17 has no close counterpart a century later. Owing to a great fall in the price of wheat from 1812 to 1815, there was great distress in the agricultural community, still preponderant in the economy of the country. The more general cause of the depression is, however, more akin to that of 1921. To quote again from the *Annals* “ . . . the official view

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. . . was that the distress was due to the transition from twenty-three years of war to the ordinary conditions of peace, with all the disturbance, both to demand and supply, that this necessarily involved—particularly the reduction of the national expenditure in one year from £120,000,000 to £70,000,000, the withdrawal of the one great customer, the Government from the market, and the return of some 300,000 soldiers and sailors to be reabsorbed into the industry of the country. Consequently, they held the distress to be temporary.” “The opposition, as insistently, put forward the statement that the real causes were the pressure of the enormous debt and the intolerable taxation, aggravated by the size of the establishments still retained and by the waste in all departments.” In 1919, on the contrary, the fall in prices was small, and owing to wise measures in easing the transition demobilization was carried out without disaster.

By the end of 1817 the post-war boom began, and in 1818 exports were on a considerable scale, and prices rose 30 per cent. from the average of 1816 to that of 1818. The iron-works were in full activity. The cotton industry was very active and there was a strike of cotton spinners in July. In 1819, however, it became evident that neither in Europe nor in America were customers in a position to buy English goods, exports fell to a low level, and a fall of prices

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began which continued for four years, so that in 1822 the index-number was only two-thirds of that in 1818, and lower than at any date since 1790. In the same year, 1819, there was great distress in the manufacturing districts, marked by the meeting at Manchester for a reform of Parliament, and the disaster of "Peterloo", when the yeomanry charged the crowd. From 1820 onwards the course of industry and commerce was not parallel to that after 1924.

In 1797 the Bank of England ceased to pay gold on demand, one pound notes were issued and the currency was paper till 1820 or later, when gradually the gold standard was restored.

It is not inopportune to mention that in 1818 the first important Factory Act was passed, limiting the hours of work of children in textile mills to $10\frac{1}{2}$ per diem. In 1919 the Conference of Employers and Workmen resolved on a 48 hours week for all employees.

CHAPTER II

POPULATION

THE most evident economic effects of war are the destruction of persons, property, trade and commercial organization, and in each case the consequences are both immediately visible and also long drawn out.

We need not concern ourselves with statements of the actual loss of life, except to record the number as below,¹ and it is not possible to measure in any useful way the loss of productive power due to permanent injury. The actual number of war pensions to disabled officers, men and nurses in the United Kingdom was 923,000 in 1922, falling to 537,000 in 1926, but these figures tell us nothing of the degree of disablement. The more useful facts are those which relate to the total of population and the changes in its division by sex and age.

¹ See note next page.

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The statistics of the populations of the countries of Europe before and after the war are given in Table I. The whole population of Europe was about 14,000,000 greater in 1924 than in 1911, an increase of only 3 per cent. in thirteen years. There have, of course, been numerous changes in territory—the transfer of Alsace-

¹ The following estimates are given by the Austrian statistician, Dr. Winkler (*Statistische Handbuch*, 1927):—

		Military and Naval War Losses.	
		Number of deaths.	Per 1,000 of all men aged 20 to 45 in each country.
Germany	. . .	1,855,000	155
German Colonies	. . .	1,170	—
Austria	. . .	812,000	166
Hungary	. . .	645,000	187
Belgium	. . .	34,000	25 approx.
France	. . .	1,325,000	182
French Colonies	. . .	67,000	—
Italy	. . .	563,000	101
United Kingdom	. . .	744,000	88
British Colonies :			
Australia	. . .	59,000	60
New Zealand	. . .	16,000	73
Canada	. . .	57,000	33
Others	. . .	70,000	—
Bulgaria	. . .	70,000	113
Roumania	. . .	159,000	118
United States	. . .	57,000	3
Total		6,534,000	

TABLE I. AREA AND POPULATION OF EUROPEAN COUNTRIES

1910 or 1911.				1924.			
	Area 1,000 sq. miles.	Population, Millions.		Area 1,000 sq. miles.	Population, Millions.		
Great Britain	. . .	89	40.8	Great Britain	. . .	89	43.6
Ireland	. . .	32	4.4	N. Ireland	. . .	5	1.3
				S. Ireland	. . .	27	3.0
France	. . .	207	39.2	France	. . .	213	40.3
Belgium	. . .	11	7.4	Belgium	. . .	12	7.7
Netherlands (Holland)	. . .	13	6.0	Netherlands	. . .	13	7.3
Denmark	. . .	15	2.8	Denmark	. . .	17	3.4
Germany	. . .	209	64.9	Germany	. . .	182	62.6
				Dantzic	. . .	1	0.4
				Poland	. . .	150	29.0
Austria-Hungary	. . .	261	51.4	Austria	. . .	32	6.6
				Hungary	. . .	36	8.3
				Czechoslovakia	. . .	54	13.6
Italy	. . .	111	34.7	Yugo-Slavia	. . .	90	14.1
Servia	. . .	19	2.9	Italy	. . .	120	39.7
Montenegro	. . .	4	0.2	Albania	. . .	11	0.8

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Roumania . . .	50	7.2	Roumania . . .	114	17.0
Bulgaria . . .	37	4.3	Bulgaria . . .	40	5.3
Greece . . .	24	2.6	Greece . . .	50	6.4
Turkey in Europe . .	65	6.1	Turkey in Europe . .	9	1.8
Russia in Europe . .	2,044	134.0	Russia in Europe . .	1,730	99.0
			Finland . . .	150	3.5
			Estonia . . .	18	1.1
			Latvia . . .	25	1.8
			Lithuania . . .	22	2.2
Other Countries . .	590	38.6	Other Countries . .	586	41.8
Total (approx.) . .	<u>3,800</u>	<u>447.5</u>	Total (approx.) . .	<u>3,800</u>	<u>461.6</u>

“Other countries” include Norway, Sweden, Luxemburg, Switzerland, Spain, Portugal, Iceland, certain small areas and islands, and Crete in 1910 (transferred to Greece after the war).

Russia includes Finland in 1910, and still includes the Ukraine, White Russia, the Caucasus, etc., in 1924.

The Saar district is included in Germany.

The entries for population are to be read thus: Great Britain in 1911, 40,800,000 approximately.

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Lorraine to France, of the Austrian Trentino, etc., to Italy, additions to Denmark, Belgium, and Greece, the reconstitution of Poland, the breaking up of the Austrian-Hungarian Empire, the separation of four countries from Russia, and other adjustments. The table should be studied in detail, but some important features can be thus summarized :—

TABLE II. PERCENTAGE OF POPULATION IN EUROPE OF VARIOUS COUNTRIES, AS DEFINED BEFORE AND AFTER THE WAR.

	Year.	
	1911.	1924.
Great Britain and Ireland	10·1	10·4
France	8·8	8·7
Germany	14·5	13·6
Italy	7·7	8·6
Belgium	1·7	1·7
Roumania	1·6	3·7
Bulgaria	1·0	1·2
Greece	0·6	1·4
Austria and Hungary	11·5	3·2
Poland	—	6·3
Czechoslovakia	—	2·9
Yugo-Slavia	—	3·0
Russia	29·9	{ 21·4
Finland, Esthonia, Latvia, Lithuania }		
Other Countries	12·6	12·0
	<hr/>	<hr/>
	100·0	100·0
	<hr/>	<hr/>

In spite of her increased territory France contains

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a smaller proportion of the population of Europe than before the war.

Apart from change of territory the growth and constitution of the population of a country is due to births, deaths and migration, and before the war considerable movements had occurred in each of these factors, and certain tendencies were visible and were already the subject of analysis. In brief, birth- and death-rates were falling in most industrial countries, and migration was subject to increasing restrictions. We have to consider how far the changes subsequent to the Armistice were a continuation of the pre-war tendencies, and how far due to new impetus.

To observe the general lines of change in a brief form it will be sufficient to take the statistics of the principal belligerent countries (excluding the United States for which there are no complete records of births and deaths) together with a neutral country and, for a relatively newly populated region, Australia.

In Table III it is clear that in each country the downward movement of death-rates in the fifteen or twenty years before the war would have led us to expect such results as were in fact attained five years

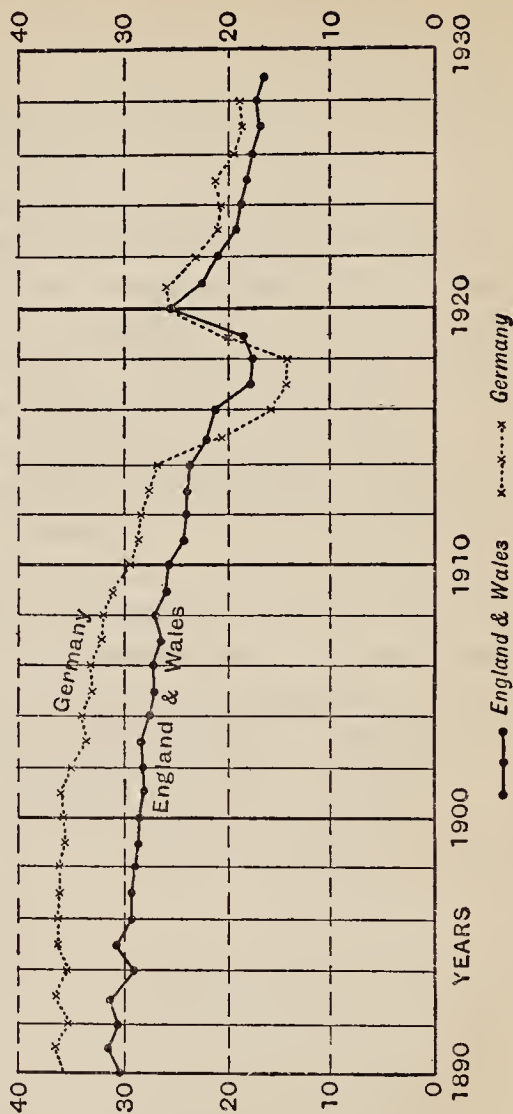
after it. These figures only give a preliminary survey, and it must be realized that death-rates cannot fall below a certain minimum, and that with the diminution in the numbers of young children, who contribute an alarming quota to the total of deaths, the rates would now be falling, except in so far as they are kept up by an increasing proportion of old people in the population. The principal causes of this general fall are improvement of sanitation, better diffused knowledge of the conditions of health and the development of medical science. Some increase in surgical knowledge may perhaps be attributed to the war, and perhaps we can connect the increasing care of infant life — and the consequent diminution of infant mortality with the more general results of the war on population.

The birth-rate is the result of two factors ; the relative number of women of child-bearing age in the population, and their fertility, but at present it is not necessary to disentangle their effects. Whether owing to a desire to maintain an improving standard of living, or to avoid the pains and perils of child-bearing, with a spreading knowledge of the means of

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limiting births, or owing to less obvious and more general causes, the birth-rate fell in all the European countries included in Table III in the fifteen years before the war. In France the rate was barely sufficient to maintain its population, and the fall was relatively slight. As with the statistics of deaths, there is nothing surprising in the post-war figures, nor can war-influences be isolated. In Sweden the rate fell by one-quarter of itself from the years 1910-12 to 1923-25, a greater proportion than in Great Britain, but a slightly less proportion than in Germany. There is some evidence that in the last-named country the economic strain accentuated the voluntary restriction of births. Diagram I shows the birth-rates since 1890 in England and Wales and in Germany, and from it the relation between the pre- and post-war rates can be judged.

DIAGRAM I.—BIRTH-RATES IN ENGLAND AND WALES AND IN GERMANY, 1890 TO 1928.
 Number of births per 1,000 of the population.



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TABLE III. DEATH-RATES. ANNUAL AVERAGES.

(Number of deaths per 1,000 of the population.)

			1896 to 1900.	1901 to 1905.	1910 to 1912.	1923 to 1925.
Great Britain	.	.	17·8	16·1	14·0	11·7
France .	.	.	20·7	19·5	18·3	17·5
Germany .	.	.	21·3	19·9	16·4	12·7
Italy .	.	.	22·9	21·8	19·8	16·6
Sweden .	.	.	16·1	15·5	14·0	11·7
Australia .	.	.	12·6	11·6	10·8	9·5

TABLE IV. BIRTH-RATES. ANNUAL AVERAGES.

(Number of births per 1,000 of the population.)

			1896 to 1900.	1901 to 1905.	1910 to 1912.	1923 to 1925.
Great Britain	.	.	29·4	28·2	24·7	19·3
France .	.	.	22·0	21·3	19·1	19·4
Germany .	.	.	36·0	34·8	28·9	20·7
Italy .	.	.	33·9	32·4	32·4	28·3
Sweden .	.	.	26·9	26·1	24·2	18·1
Australia .	.	.	27·5	26·1	27·5	23·3

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TABLE V. BIRTH-RATES.

ENGLAND AND WALES.

1890	30.2	1900	28.7	1910	25.1	1920	25.5
1	31.4	1	28.5	1	24.4	1	22.4
2	30.5	2	28.5	2	24.0	2	20.4
3	30.8	3	28.5	3	24.1	3	19.7
4	29.6	4	28.0	4	23.8	4	18.8
5	30.4	5	27.3	5	21.8	5	18.3
6	29.7	6	27.2	6	21.0	6	17.8
7	29.7	7	26.5	7	17.8	7	16.6
8	29.4	8	26.7	8	17.7	8	16.7
9	29.1	9	25.8	9	18.5	9	16.3

GERMANY.

1890	35.7	1900	35.6	1910	29.8	1920	25.3
1	37.0	1	35.7	1	28.6	1	25.3
2	35.7	2	35.0	2	28.3	2	22.9
3	36.7	3	33.9	3	27.5	3	21.0
4	35.8	4	34.1	4	26.8	4	20.4
5	36.1	5	33.0	5	20.6	5	20.7
6	36.3	6	33.1	6	15.2	6	19.5
7	36.0	7	32.2	7	14.0	7	18.4
8	36.1	8	32.0	8	14.3	8	18.6
9	35.8	9	31.0	9	20.0	9	17.9

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In spite of the fall of the birth-rate it was still, before the war, sufficient to produce a rapidly increasing population in all the countries named except France, more rapid than 1 per cent. per annum.¹ In 1913 the natural increase, that is the excess of births over deaths, was 450,000 persons in the United Kingdom and 880,000 in Germany. The pressure of increasing European population on the means of living was the chief economic cause of the war, resulting as it did in a search for markets, for colonies and for external countries for investment and production. The effect of emigration in relieving this pressure in the decade before the war was not very great, as can be seen from the figures on pp. 63-4 below.

The main effect of the war on population was the destruction of numbers of men born in the period 1876 to 1901, that is of ages 10 to 35 at the date

¹ Prior to 1900, when in Great Britain at least the *number* of births was increasing, though the actual *rate* was falling, the population of Europe increased rapidly, so that at the outbreak of war the number of men over 20 years old was considerably greater than at any previous time.

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of the 1911 census, while their survivors were aged 20 to 45 in 1921. Among women the loss of life due to the war was relatively slight.

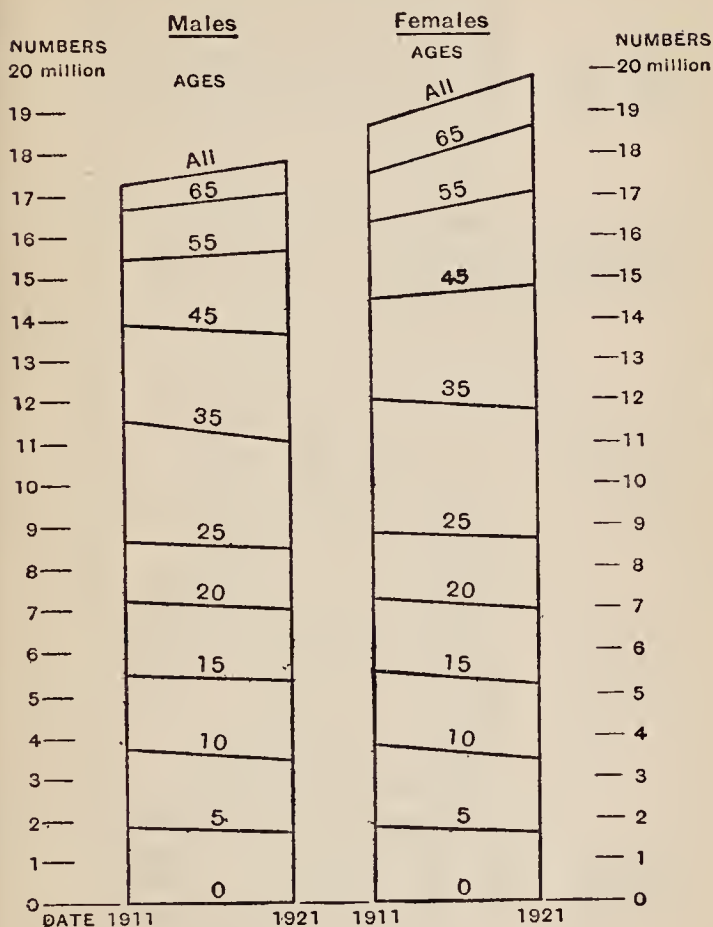
One evident effect is to modify the proportion between the number of males and females. In Great Britain there were in 1911 1,067 females to 1,000 males, while in 1921 the proportion had risen to 1,093. In particular, some of the women, especially those between 20 and 25 years in 1921, remained unmarried, and many were widowed. The number of widows aged less than 45 was 192,000 in 1911 and 318,000 in 1921.

The numbers of males and females in England and Wales in 1911 and 1921 are shown in Diagram II. The smaller aggregate increase of the former is shown by the nearly flat line at the top of the males' column, as compared with the rising line at the top of the females'. In any age group where the bounding lines are parallel, as e.g. the group 15 to 20 years for both sexes, the numbers are stationary. Where they diverge from left to right (e.g. ages 45 to 55) the numbers have increased between 1911 and 1921. Where they converge (males, 25 to 35 years) the numbers decrease. Between 35 to 45 years where

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DIAGRAM II.—ENGLAND AND WALES : CHANGES IN AGE DISTRIBUTION.

Numbers up to ages stated.



Example.—The total number of males under 45 years was 13,900,000 in 1911 and 13,600,000 in 1921 ; the total number of males under 35 years was 11,500,000 in 1911 and 11,100,000 in 1921.

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DIAGRAM III.—CHANGES IN AGE AND SEX DISTRIBUTION IN VARIOUS COUNTRIES.
Males in various age groups per 1,000 of all males and females. Ages 15 to 70 years only.

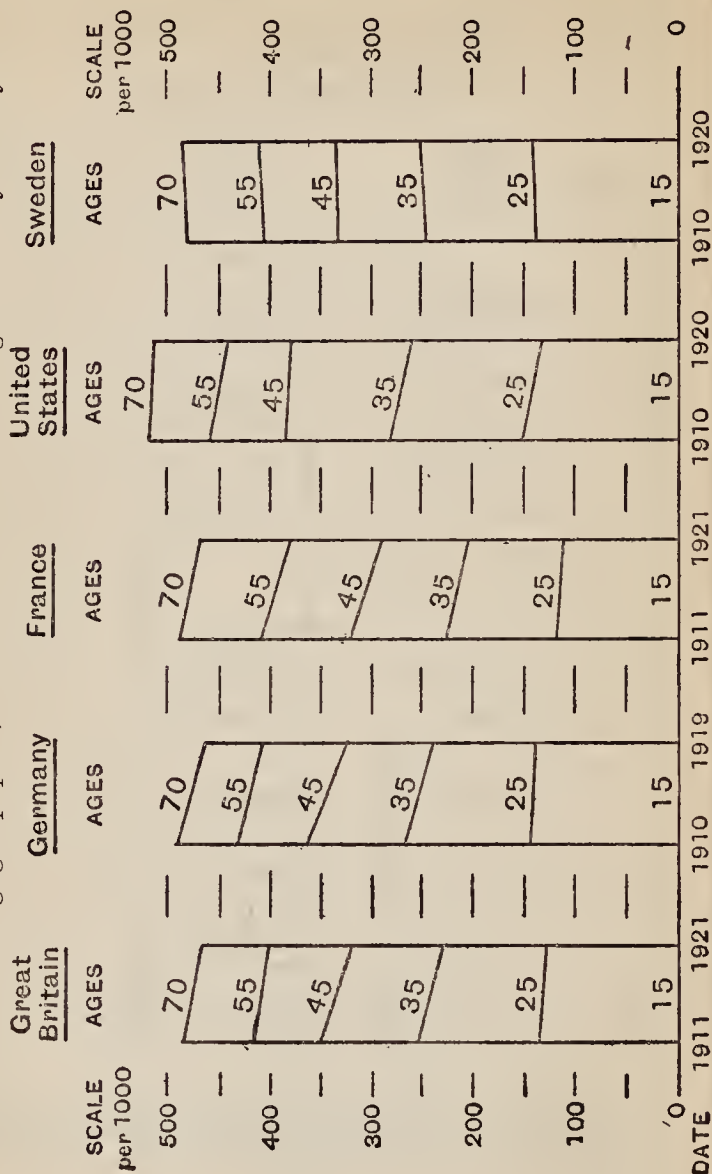


TABLE VI. AGE DISTRIBUTION OF PERSONS BETWEEN THE AGES 15 TO 70.

Ages.		Great Britain.		Germany.		France.		United States.		Sweden.	
		1911.	1921.	1910.	1919.	1911.	1921.	1910.	1920.	1910.	1920.
Males :											
15-25	.	133	123	146	137	115	112	151	133	140	140
25-35	.	118	101	120	96	110	89	132	126	109	110
35-45	.	98	95	95	93	98	93	102	107	83	90
45-55	.	70	81	70	76	83	87	75	82	74	68
55-70	.	60	70	61	63	84	89	59	66	77	79
15-70	.	479	470	492	465	490	470	519	514	483	487
Females :											
15-70	.	521	530	508	535	510	530	481	486	517	513
		1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Males :											
15-25	.	133	123	146	137	115	112	151	133	140	140
15-35	.	251	224	266	233	225	201	283	259	249	250
15-45	.	349	319	361	326	323	294	385	366	332	340
15-55	.	419	400	431	402	406	381	460	448	406	408
15-70	.	479	470	492	465	490	470	519	514	483	487

the lines diverge, the war losses were not great enough to balance the natural increase in the population; the births in 1876-85, the survivors of which were in this age group in 1921, were 10 per cent. more numerous than ten years earlier.

From the economic standpoint the most important question is the effect on the age and sex distribution of the population of working-age, which we may take as from 15 to 70 years. This is illustrated in Table VI and Diagram III, which relate solely to proportions, not to the actual numbers of persons as does Diagram II. Considering first the distribution by sex, it is seen that in Sweden, which we may regard as giving a control on the effects of the war, in 1910 out of 1,000 persons between 15 and 70 years old 483 were males and the residue, 517, females. The proportion rose very slightly to 487, in 1920, and by that date the proportion of males between 25 and 35 and between 35 and 45 years had increased, as shown by the slightly diverging lines in Diagram III.¹ In each of the belligerent countries, however, the proportion of males

¹ Note that the Diagram relates only to males. Thus the first figure shows the decrease of males from 479 (per 1,000 of both sexes) in 1911 to 470 in 1921.

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decreased : from 519 to 514 in the United States, from 479 to 470 in Great Britain, from 490 to 470 in France, and from 492 to 465 in Germany. In each of these countries the decrease is in each of the three lower age groups (15 to 25 years, 25 to 35, and 35 to 45 years) where the lines converge. The population of working-age is older and more feminine. Decade by decade this deficiency of men will be found higher up the age-scale, and as time goes on it will be succeeded by a more numerous younger generation from the births (still very numerous) between 1900 and 1910, which in its turn will be succeeded by the survivors of the diminished numbers born in later years. The age distribution will not be even approximately normal (in the sense of appropriateness to a stationary or regularly increasing population) for more than half a century.

An effect which might have been expected to follow from this change in proportions is the extension of women's share in occupations, relatively to the total number of both sexes occupied. During the war, as is well known, very many women, young and middle-aged,

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were employed in factories, and on the land, as well as in commerce, the Civil Service and as nurses. After the war a great number of the older gave up work completely, others rejoined their men now back from the war, and marriages were very numerous. When the position is examined, after a period of demobilization of many of the new workers and of holiday had elapsed, it was found (as recorded in the Census of 1921) that in Great Britain the proportion of females occupied was in the aggregate smaller than before the war; the percentages of all females over 14 years that were recorded as occupied were 35·7 in 1911 and only 33·7 in 1921. But this general proportion obscures the details. Of single women the percentage occupied increased somewhat in nearly all age groups from above 16 to 65, rising for the aggregate from 71·6 to 73·4 per cent., while among married women and widows it fell, except in the case of married women under 25 years where, always small, it rose from 12 to 13 per cent. In fact in Great Britain married women and widows generally do not work (in the Census sense) unless their economic position compels them, and their position was generally in the manual labour

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class more favourable after the war than before it. Of single women the majority who can leave home, have always been at work, and there has only been room for expansion in a limited class.

There has, however, been a transference from domestic service to industry, dealing (shop keeping) and commerce, which is roughly indicated by the following statistics :

TABLE VII. ENGLAND AND WALES.

Number of Women and Girls occupied.

	1911. 000's.	1921. 000's.
Personal Service	1,864	1,507
Industry (other than Clothing) and Transport	1,353	1,665
Clothing	703	503
Shops	316	432
Banking, Insurance, etc.	148	310
Professions, Theatre, etc.	371	454
Government Service	76	194
Total	<u>4,831</u>	<u>5,065</u>

In this table clerks, etc., in Industry are allotted to Industry. Engineering, machinery and other metal trades account

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for a considerable part (125,000) of the increase in industry. In shops there was a decrease of about 150,000 men, and this is the only clear case of actual replacement of men by women. In most other cases, increase took place in both sexes, and no doubt there is a great deal of additional clerical work done by women. Similar figures are not readily available for other countries. In France there is actually a shortage of labour, but it is doubtful whether there was any large group of unoccupied women to draw upon. In Germany there is some evidence that women have filled the places left vacant by men.

Though the general fall in the birth-rate is not mainly attributable to the war, the specific fall in 1915 to 1919 and the increase in 1920 and 1921 are directly due to the absence and return of the men. It may, in fact, be held that the latter nearly balanced the former, for the mean birth-rates in England and Wales in the three successive septennial periods 1908-14, 1915-21, 1922-28 were 24·8, 20·7, 18·3; if the progression had been regular the rate in the middle period would only be raised to 21·8. Perhaps 100,000 to 150,000

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potential children did not come into existence and 200,000 were born some two or three years later than might have been expected. (The number of births per annum before the war was about 880,000.)

In the year 1930 there is a deficiency of children of the ages 11 to 15 and a relative excess of the ages 9 and 10. This has complicated the provision of educational facilities, affects the plans for raising the age of leaving school,¹ and makes the number ready to enter into occupation each year irregular. This is of course apart from the steady fall in the number of births, to the results of which the schools and industry will have to adapt themselves. The actual irregularity will cease to have important effects after about 1940, but it is interesting to observe the probable numbers during the next few years.

¹ Thus the London County Council in 1930 was unwilling to face the expense of providing accommodation for children over 14 since after 1935 when the children born in 1919 or 1920 had left there would be surplus accommodation in view of the smaller number born in later years.

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TABLE VIII.

ESTIMATED NUMBER OF BOYS IN GREAT BRITAIN,
AGES 14 TO 19.¹

(*Not allowing for Emigration.*)

000's omitted.

Ages	Years	1930.	1931.	1932.	1933.	1934.	1935
14 . . .		368	342	300	308	452	411
15 . . .		396	367	342	299	307	451
16 . . .		404	395	366	341	299	306
17 . . .		403	403	394	365	360	298
18 . . .		399	401	402	392	364	339
19 . . .		400	398	400	400	391	363

Thus the number at age 14 is a minimum in 1932, at age 15 a minimum in 1933 and so on. The fall in the number of births at the beginning of the war affects those aged 17 after 1931. The increase after the Armistice is responsible for a rise in the number aged 14 from 1932 to 1934.

The effect on the number of girls is similar.

The following Table (from the Report on Migration, Geneva Economic Conference) relates only to emigration overseas, and does not allow either for immigration or

¹ From *The Banker*, May, 1929, p. 143.

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for movement within the continent of Europe. The *net* loss of population of the United Kingdom, due to the whole in- and out-movement, averaged only 110,000 annually in the decade 1901 to 1911, and for Germany in the same period the net loss was very small, following a period of considerable emigration at the end of the nineteenth century.

TABLE IX.

OVERSEAS EMIGRATION OF NATIONALS OF EUROPEAN COUNTRIES.

			Yearly Average.	
			1901-10.	1911-13.
			000's.	000's.
United Kingdom	.	.	282	390
Germany	.	.	28	22
Austria-Hungary	.	.	110	241
Italy	.	.	362	409
Spain	.	.	109	162
Portugal	.	.	33	83
Sweden	.	.	22	16
Other Countries	.	.	53	45
			<hr/>	<hr/>
Total			999	1,368
			<hr/>	<hr/>

ECONOMIC CONSEQUENCES OF THE WAR

TABLE IX (continued).

	Years.					Average for 5 Years.
	1920. 000's.	1921. 000's.	1922. 000's.	1923. 000's.	1924. 000's.	000's.
United King- dom ¹ . .	285	199	174	270	174	220
Germany . .	8	23	36	115	58	48
Poland . .	74	87	39	55	23	57
Austria-Hun- gary, Czecho- slovakia . .	6	11	31	39	11	20
Italy . . .	211	199	129	186	138	172
Spain . . .	151	63	64	93	87	91
Portugal . .	46	18	29	31	22	29
Sweden . .	7	6	9	27	8	11
Other Coun- tries . . .	58	42	51	80	53	57
Total . . .	<u>846</u>	<u>648</u>	<u>562</u>	<u>896</u>	<u>574</u>	<u>705</u>

In 1920 to 1924 the return movement from overseas to Europe was about 40 per cent. of the outward movement.

Thus, owing in large measure to restrictions on movement, post-war emigration has been on a lower scale than that immediately before the war. But the need for emigration has been less; for, as

¹ Including South Ireland throughout.

POPULATION

Tables III and IV, show the rate of natural increase (that is the excess of births over deaths) has diminished from 1910-12 to 1923-5; in Great Britain from 10·7 to 7·6 per 1,000 of the population, in Germany from 12·5 to 8·0, and in Sweden from 10·2 to 6·4. In Italy, however, it remains about 12·0.

CHAPTER III

CURRENCY AND PRICES

BEFORE proceeding to discuss the destruction of capital and of business "good-will" it is convenient to consider the wide-reaching effects of the changes in the amount and nature of currency, and of prices.

The technical problems connected with inflation and deflation of currency, and the relations between the quantity in circulation and prices, are outside the scope of this study, except in their more obvious aspects; and we are concerned in this case rather with the sequence of events than with their underlying causes.

Before 1914 it was well known to historians and economists that a considerable rise of prices generally accompanied a war, even on such a relatively small scale as the Crimean War and the South African War. The sudden increase in the demand

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for the munitions and apparatus of war, and the interruption of some ordinary supplies, result in a rise of prices of the goods immediately affected, and in course of time of other goods. This takes place without any alteration in the method of issuing currency or in its nature. But it was also known that in more severe wars, civil or international, governments had found themselves obliged to suspend the conversion of notes into gold and to issue additional inconvertible paper money. This happened, for example, in England in the Napoleonic Wars, in America in the Civil War of 1861-5, and in France in the revolution of 1848.

A government is obliged on the outbreak of war to meet a great number of cash payments (in old times provided for by an actual war-chest) for movement of troops, purchase of stores and munitions, wages and so on. When the scale of the operations is very great, it is impracticable to increase taxation quickly enough to supply this money, and the power of the banks to advance money is soon exhausted; nor can loans be organized in time to meet the expenses as they fall due. A government is presently forced to create new

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currency to meet its expenses, and this it does by printing currency or treasury notes bearing on their face (in the case of the United Kingdom in 1915) the statement that they are legal tender for so much, 10s. or £1 or \$1. These notes cannot be converted into gold, for at the same time the Government through the banks withdraws gold from circulation. The currency notes themselves come into circulation either by the Government using them to pay its own expenses, or by the banks issuing them instead of gold. Given that convertibility into gold is suspended, there is no automatic limit on the amount that can be issued, and unless very strict control is exercised a vicious race is set up, between increase of prices and of currency. As is nearly self-evident, and is explained in detail in all books dealing with the subject, prices rise as the amount of currency in circulation increases more rapidly than the goods that exist for purchase, higher prices result in higher wages and higher wages call for more currency, and more currency raises the prices further. The great inflation of German prices in 1923 was closely connected with the German government undertaking

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to pay salaries and wages in the Ruhr district, then idle as a protest against the French occupation; this was done by printing new notes in marks and issuing them to the district without any return in products; prices rose very rapidly, the issue had to be increased and so on alternately in geometric progression till the break came.

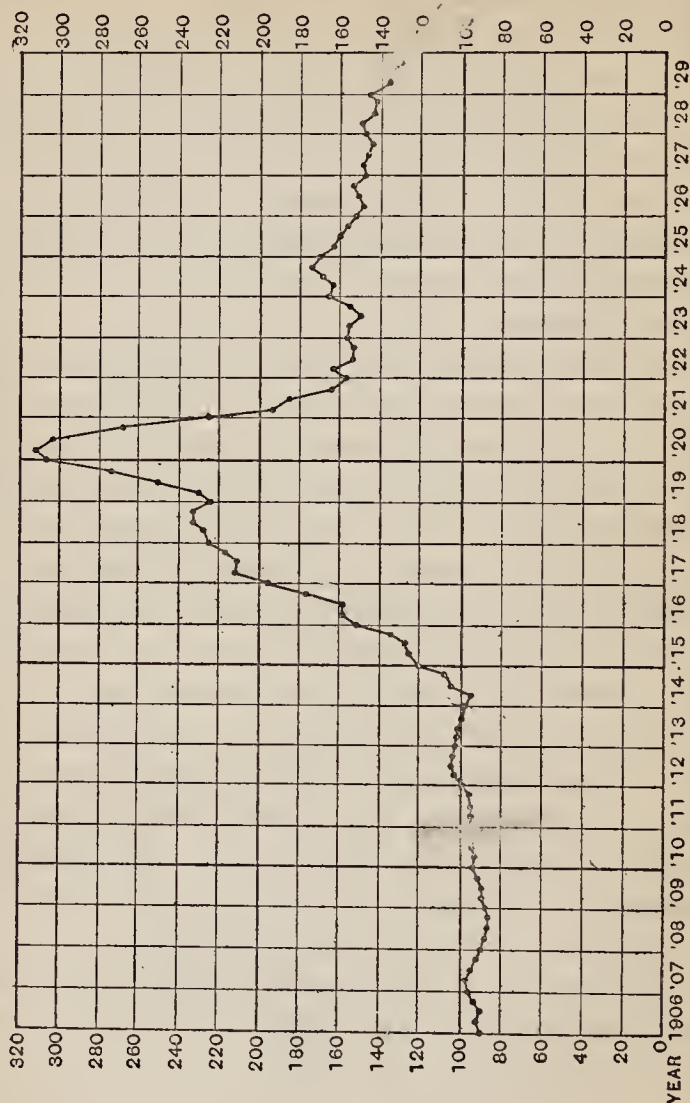
In the United Kingdom the progress of prices was more moderate. From the outbreak of war till the end of 1917 prices rose about 27 per cent. per annum; in all 125 per cent. in $3\frac{1}{3}$ years. Strong measures of control—price and wage fixing—together with increased taxation checked the increase during 1918, but at the date of the Armistice wholesale prices were 140 per cent. above the pre-war level; that is, it took in general 240s. to buy what cost 100s. in 1914, or the pound had fallen to about the value of 8s. 3d. in pre-war money. The next phase was a slight fall of prices for about six months.

Changes of the same nature, but on different scales took place in all belligerent and many other countries.

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DIAGRAM IV.—THE STATIST INDEX-NUMBER OF WHOLESALE PRICE.

Quarterly Averages.



The average for the four quarters July 1913 to June 1914 is taken as 100.

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TABLE X. ESTIMATED RISE OF WHOLESALE
PRICES FROM 1913 TO MAY 1919.

	Per cent.
United Kingdom	136
France	227
Italy	250
Germany	315 ¹
United States	108
Sweden	230

The mechanism and the causes of the movement differed in different countries ; for example, the gold standard was at least nominally preserved in the United States and in Sweden, and before the war gold had been in common circulation for small purchases only in the United Kingdom and perhaps in some smaller countries. But the actual rise of prices was general and had far-reaching effects.

The need to repair the destruction of buildings and machinery, to restore the land and mines in the war zone to productive conditions, and to make up for the general cessation of building and ordinary renovation of plant during the war years, caused a great expansion of civil employment as soon as the armies were

¹ Average of the year 1919.

demobilized in the United Kingdom, France, Belgium, the United States and indeed every country in which the work could be financed. The development, however, did not stop at reconstruction, but as after the Franco-Prussian war of 1870-1 there was a great boom in industry ; in a spirit of optimism it was supposed that there would be a great demand for all goods, whether such necessities as clothes and furniture, or luxuries as expensive motor-cars. The number of unemployed fell to a very low level ; there was feverish activity on the Stock Exchange, and the orders booked (and in many cases never executed) at the 1920 autumn motor exhibition passed all reason. Prices rose rapidly from the summer of 1919 and in May 1920 in the United Kingdom were about 225 per cent. and in the United States about 170 per cent. above the pre-war level. In fact, however, it was soon found, as it had been a century before and as all sober-minded and well-informed men anticipated, that though many persons desired goods, they had not the means to pay for them, and that the demand was not " effective " in economists' language. The real turning point of the boom is said to have been in April 1920,

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when the Bank of England discount rate was raised from 6 to 7 per cent., but activity continued to the end of the year.

During 1921 and subsequent years the very painful process of deflation followed the expansion. In the United States recovery began early in 1922, and the influences of the war were quickly lost in a wave of prosperity which continued, with some interruptions, for several years. In the United Kingdom the fall of prices was checked also in 1922 at about 55 per cent. above the pre-war level—actually wholesale prices were halved in less than two years—and unemployment began to diminish very gradually; but there was no definite recovery.

Space does not permit any description of the collapse of currency and the fantastic rise of prices in Germany, Austria and countries in the south-east of Europe, and of the more moderate but still very serious rises in France and Italy. Whenever a country cannot balance its budget, that is make its receipts from taxes, loans or reparation payments cover its governmental expenditure during the year, it is (at least till currency notes, etc., are convertible into gold) impelled to issue

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additional currency to pay its way, and so cause a further rise of prices. In the years 1922 to 1928 one country after another succeeded in effecting a national balance, and then stabilized its currency in terms of gold. In England, when exchange with the United States again reached parity in 1925, the gold exchange (with modifications) was restored, and except that gold is replaced by paper for payments within the country there has been no radical change. In Belgium in 1926 when the franc was steady at about one-fifth of its former gold-value (as measured by the dollar exchange) new currency was issued, one new "Belga" was issued for each five francs. In Germany one reichsmark was exchangeable for 1,000,000,000,000 old marks. In France and Italy there has been no essential change in the form of currency, but in 1927 the franc was stabilized at 124 and the lira¹ at about 89 to the £, instead of at 25·23 as before the war. That is, the franc is now equivalent to about 2*d.* instead of to 9½*d.* as before.

By 1928 wholesale prices in countries on a gold standard at the pre-war relation

¹ The lira fell to 92 or 93 in 1928 and 1929.

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between currency and gold had returned to 50 or 60 per cent. above the pre-war level, but were still falling slowly, so that in the United Kingdom they were at the end of 1929 only 30 per cent. above those of 1914. In France and Italy they were in francs and lira six- and five-fold respectively of the 1913 prices in those countries, and since people naturally think in terms of their own currency the increase is still felt acutely by the residents, though visitors find the money they exchange goes as far as at home.

The difficulties that arise in international trade in a period of great fluctuations of the exchange-rates, due to unequal movements in prices, are considered in Chapter VIII below. Here we shall discuss only the resulting changes within a country.

In the long run income and commercial transactions can be adjusted or adjust themselves to any price level; but during a period of change many inequalities appear, all related to the length of time over which a bargain extends. Thus long-term leases, and debentures not redeemable for a long period, yield a fixed money income to the owner; an income of £500 arising from such sources loses two-fifths

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of its purchasing power when prices rise $66\frac{2}{3}$ per cent. and the £500 will only purchase what cost £300 before. This was the position of holders of consols, debentures and other fixed-interest securities when 1922 is compared with 1913. By legislation the owners of working-class and some other house-property were put in the same position.

Salaries do not usually rise so rapidly or fall so soon as prices, nor do professional fees (unless as in the case of architects they are proportional to the value of the building erected or in other cases to work done).

Investors of new money, however, tend to get the same percentage on their investments whatever the level of prices. Profits that are made early during a time of rising prices, and invested in, say, government securities, are advantageous to their holders in two ways. When prices are rising the rate of interest obtained is likely to be high, and when subsequently prices fall the income is spendable at an increasing advantage.

If then we compare 1922 with 1913 in any of the industrial countries affected by the war, whether belligerent or not, we find that the elderly members of the middle

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class whose investments were completed before 1913 (and usually at a fixed rate of interest) and pensioners were able to purchase fewer goods with their incomes at the latter date. This, however, is too mild a way to describe what happened in Germany; there with the rise of prices, the incomes receivable of this kind became so small as not to be worth the postage which covered their despatch and finally vanished. It is lamented in Germany that the educated middle class is disappearing, for owing to the complete loss of savings and the insufficient increase of salaries, it is impossible to afford to educate the children, who must earn their own living as early as possible. In Great Britain there has been a visible fall in the standard of living of the professional classes.

At the other extreme are those who made profits during the war; who, without necessarily coming under any reasonable criticism of profiteering, increased production in times of rising prices, and investing the enhanced profits in industry or in War Loans, found themselves with high real incomes when prices fell.

Broadly speaking, falling prices are an advantage to a lender, who receives

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currency of a higher purchasing power than when he lent, and a disadvantage to a borrower. In particular, governments that borrowed during the war must find it increasingly difficult to cover their interest by taxation when prices fall as from 1921 to 1930, and citizens' incomes fall with them.

Since there is no clear distinction of class between those who invested before, during and after the war, and many persons invested in all three periods, it is impossible to classify the effects. But it is certain that there has been a considerable redistribution of the ownership of capital. When the question of stabilizing prices by currency adjustments and financial policy has come up to be settled in the various countries, very difficult problems in equity have had to be considered; for if prices are stabilized at a high level one group of owners is penalized, and if at a low level all borrowers suffer. In the course of time, however, these inequalities rather rapidly disappear, if prices remain nearly steady; and at the same time the graduation of the income tax has mitigated hardships, and rapidly made wealth has been diminished by the super-tax and death-duties.

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Short time bargains are affected least by price changes, and here are included the great body of brokers, dealers and shopkeepers, whose incomes tend to be proportional to the value of their dealings or turnover. Wage movements generally lag behind price changes, but not for long in times of rising wages. Wage-earners (apart from unemployment) gain during such a fall of prices as has taken place from 1925 to 1929. The whole question of wage changes is considered below (Chapter VI).

An important result of the collapse of the value of the mark in Germany and the consequent wiping out of interest on mortgages and debentures was that manufacturers in many cases found themselves relieved of all debts, and when the new mark was established and industry developed they were in easy financial circumstances and could apply their profits to reorganization and extension of plant instead of to paying interest on debt. In consequence there, and to a less extent in other countries with depreciated currencies, industry has had an advantage in competition as compared with England where the depreciation was much less. Similarly the Central Govern-

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ment and Local Authorities found themselves relieved of all or part of their debts. This advantage, however, was obtained at the expense of the former investors in this class of security, principally the non-trading middle and professional class, who received valueless paper in payment of interest due.

The position of British railways is peculiar. The Government on relinquishing control after the war paid the companies a lump sum for depreciation and compensation, and ordained that in the future the total amount paid annually in interest and profits should, with some adjustment, equal the pre-war amount, any excess to be applied to reducing rates for goods or passengers. This stabilized debenture interest at the pre-war amount, with the implications already described, but also prevented holders of preference or ordinary stock from increasing the money return in proportion to the depreciation of the £1. Since railway charges rose as did other prices (but with less violent fluctuation) funds were available for raising the wages of railway men. There has in fact been a transfer of purchasing power from the holders of railway debentures and stock

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at the beginning of the war to post-war railway workers.

A similar transfer from owners to the wage-earning class as a whole has resulted from the treatment of housing. In Great Britain early in the war, when it was hoped that the rise of prices would be moderate and temporary, it was realized that there would be a shortage of house accommodation, since all available working-power was wanted for production of goods immediately necessary for consumption or export and of munitions; and therefore new building was almost stopped. The peculiarity of housing is that a slight lack of accommodation results in a rapid increase of rent, and even in normal times additions to the supply of houses take many months. To prevent exploitation of the situation by owners of property, rents for working-class houses were fixed at their pre-war level, and tenants were given security of tenure. With modifications, mainly in allowances for increased rates and expenses of repairs, these restrictions continue till the time of writing, and there is no immediate prospect of their removal. The results of this policy have been far-reaching. On the one hand, wage-earners and

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others who have remained in the same houses since 1914, and who have an income increased in proportion to the fall in the value of money, in the case of house-room paid only the same nominal amount. Where wages were closely bound to the movement of prices measured by the Cost of Living index, they did not obtain this advantage, since the regulated rents entered into the computation of that index. But in the lapse of time other considerations have determined wages, and the Cost of Living index has fallen into the background. Controlled rents now form a much smaller proportion of working-class incomes than did pre-war rents of the pre-war incomes, and the Ministry of Labour has ascertained that only a quite small proportion of the rents of working-class houses are uncontrolled. In cases of sub-letting the advantage of low rents is often greater for the tenant and less for the sub-tenant, a transfer generally within the working-class.

So far as allowance is or has been made in wage assessments for the fixity of rents, the loss of the property owners has been to the advantage of consumers or of employers; in the more general

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case it has led to a virtual increase of wages.

When demobilization of the armies took place the position was very serious. Normally building takes place in proportion to the increase of population, to replace derelict houses, improve the general standard of house accommodation, and allow for shifting of population. The cessation of building for four years led to great congestion in many districts. Private capitalists and speculative builders were unable or unwilling to do anything to meet the demand. After the establishment of Increment Duty on Land Value in 1909-10, capitalists rightly or wrongly had regarded building, except for direct sale, with timidity, fearing that their profits would be mulcted. With the control of rents, even though this did not apply to new houses, aversion to investment in house property was greatly increased. The supply of building materials was insufficient to meet any extensive demand and consequently (even after an attempt at control) they were very high, and builders' labourers' wages hourly and weekly, and artisans' hourly wages had increased more rapidly than prices in

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general. Consequently houses could not be erected and let at any rent that was not enormously greater than the controlled rents of existing houses. These difficulties applied equally to house building by the Government, and hence subsidies in various forms were given at the public cost. A further obstacle to any rapid provision of houses was the limited number of builders' artisans. Attempts to train new workers rapidly were greatly handicapped by the opposition of the Trade Unions, who held that after the pressure was over, there would be an over supply of labour and consequent unemployment. A less justifiable policy was the reduction of the summer hours of labour in 1920 at the very height of the pressure for new houses. Finally it was held that the actual standard of working-class houses ought to be raised, and the least elaborate of the new houses was superior to the former cheaper type of town house, and therefore the remunerative rent would have had to be far beyond what the poorer working-class was in the habit of paying. With all these difficulties, and in spite of a great expenditure of public money, it took many years to catch up arrears of building, and to bring up the

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general housing accommodation even to pre-war standards.

Similar difficulties have been found in very many countries. The shortage of houses and great increase of rent when uncontrolled was nearly world-wide in 1919, for even in neutral countries there had been considerable diversion of production from normal directions to providing ordinary necessities and munitions for the belligerents. In Germany the control of rent led, with the depreciation of the mark, to its extinction for the working-class in unchanged domicile. Already in January 1920, when the general cost of living was only six or seven-fold the pre-war cost, rent was only 5 per cent. of ordinary working-class expenditure in Frankfurt am Main. By November 1923 the cost of living had risen to over eleven thousand million times the pre-war level, and rent was only one part in six-hundred of expenditure; which is as if the English working-class got their houses for 1*d.* per week per family. After the re-establishment of currency circumstances were different and rent rose to one-tenth of expenditure in 1924; but still in 1929 there were strict regulations on rent, sub-letting, and moving.

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A by-product of the change from private or speculative building to provided or subsidized houses, has been the development of new ideas in housing. In England, Holland and elsewhere the garden suburb has become prominent; and in Germany and other continental countries there are interesting experiments in new styles of workmen's flats, with attention to health, convenience and architectural merit.

The shortage of houses, control of rent, and the great difference between the rent of new and of old houses, have had the bad effect of hindering the movement of labour. For a family secured in its tenure of a house at a moderate rent is unable to find accommodation in a new district, where work offers, at the same cost.

CHAPTER IV

CAPITAL

It is not possible to measure with any accuracy the actual destruction of physical capital during the war. In Mr. Keynes' *The Economic Consequences of the Peace* it is argued that £2,120 million or, more cautiously, some amount between £1,600 million and £3,000 million, would have covered the physical damage done to land, buildings, ships and civilian property of Great Britain, France, Belgium, and their allies. To this is to be added damage of the same kind done to German, Austrian and other belligerents' property, of a smaller amount since the war was principally fought on French and Belgian territory. This valuation was made in 1919 when prices were high, and we may hazard a rough guess of the magnitude of the value of property destroyed in the world at £2,000 million at pre-war

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prices, the property not including armaments, munitions or other military supplies. This figure is offered not as an exact estimate but to indicate the numerical region in which we ought to consider it. Now Sir J. Stamp estimated the aggregate capital of the eighteen richest countries in 1914 at about £124,000 million, of which about one-third was the share of the United States, one-ninth of the United Kingdom, one-eighth of Germany, one-tenth France. For the European countries engaged in the war (excluding Russia) together the estimate was £55,000 million, that is for the value of civilians' income-yielding property. The annual growth of this property was probably between 1 and 2 per cent. On this very rough basis, it appears that the war destroyed 2, 3 or 4 years' normal growth of the property of these nations, or one part in about thirty of its whole value. The proportions for different nations vary in amount and nature. Great Britain lost ships, in France mines and agricultural land were ruined.

In addition to this, since every effort was concentrated on the war and the provision of goods which were intended to be

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rapidly destroyed in their use, the normal development of buildings, plants, and machinery, which constitute the usual growth of capital, did not take place, and, indeed, existing capital was not kept up to its standard and depreciation or deterioration for four years had to be made good. Old plant, which would have been scrapped, and firms which would have been eliminated normally, remained in existence owing to the high prices and the expansion of war industries. On the other hand, the physical capital of firms providing armaments, munitions and other supplies, especially of steel-producing and engineering firms was extended and improved, and some part of these developments was useful as post-war capital. Neutral nations also in their effort to provide goods for belligerents neglected the upkeep and development of their own capital.

We ought not to add the destruction of munitions and other consumable goods to this account of property. The actual food and other necessities of civilians and soldiers and the munitions of war were provided by the world during the four years of war, except so far as there was a

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depletion of stocks of clothing and other goods. The result was a regime of international indebtedness, but the value of the goods destroyed is included already in the deterioration and absence of growth of capital. The increased productive effort of noncombatants can be balanced against the loss of production of the fighting forces.

In 1919 therefore the world found itself with its physical capital in bad condition, and in quantity no greater than in, say, 1911. At the same time its stock of consumable goods was low. The demand for new capital was, therefore, acute, and since new capital can only come out of saving, or the excess of production over consumption, the supply was limited. Nevertheless in 1919 the rate of interest in England was only one fourth part greater than in 1914; thus where interest would have been 4 per cent. in 1914, it was 5 per cent. at the beginning of 1919 and rose perhaps to $6\frac{1}{2}$ per cent. in April 1920; it has never yet (till 1930) gone below about 5 per cent. These figures are approximately the rates at which the British Government could borrow, or the rates on "gilt-edged" securities; but their move-

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ment reflects that of capital for industrial purposes.

The world was poorer in 1919 than in 1914, though perhaps not so much poorer as reflective persons would have expected ; but in England many people acted as if it were richer, that plenty was also restored with peace, and there were extravagant hopes in France and in England that impoverished Germany would provide by reparation payments any sums needed. The results of the orgy of spending in 1919 were described in the previous Chapter.

In spite of the misdirection of energy and the misconception of the situation, physical reparation proceeded apace in Belgium and in France. Iron and steel and engineering works were busy in all countries, the loss of shipping was quickly made good and shipping grew in excess of the needs of diminished trade. Railways were re-conditioned. The phenomenal development of industrial power in the United States helped to finance and to supply goods for reconstruction. In about two years' time the physical destruction of capital was repaired, and the equipment as a whole was perhaps superior to that in 1914 in the United States,

the United Kingdom, France and Belgium. Germany and her allies did not fare so well, and have been seriously handicapped by lack of capital throughout the ten years after the Armistice. It should be observed that where, as in France and Belgium, and later in Germany, the mines and factories were re-equipped, the new machinery, plant and lay-out were on the most modern plans; so that in comparison with the undamaged pre-war equipment in Great Britain, in which only steel and engineering works had been reorganized, the continental undertakings had an advantage, besides that already named of the wiping-out of debenture interest with the depreciation of currency. On the other hand, the rate of interest for new investments was much higher in Germany than in England, and—the other aspect of the same phenomenon—the supply of capital was small and the basis of credit unsettled. Germany was further handicapped by the necessity of making payments in kind and by the loss of her mercantile marine.

While Germany has had great difficulties to face in restoring and developing her productive equipment, difficulties not com-

pletely overcome in the eleven years since the Armistice, the United States, with plentiful capital and little destruction of material to make good, entered at once on a phase of very rapid development. At the end of the boom period of 1919-20 the productive capacity of the world in nearly every respect was at least as great than might have been anticipated eight years before even if there had been no war. The capacity of steel and engineering and shipbuilding works and of coal-mines was greater than any effective demands for their products; food supplies, except in Russia, were almost superabundant. The production of rubber, copper, and other metals except tin was ample, and the great store of wool left during the war in Australia was unexhausted. The annual yield of cotton, however, had not increased, and flax was very scarce owing to the disorganization of Russia. On the other hand, the manufacture of artificial silk was developing rapidly.

The position some years later was thus summarized by M. Theunis, the President of the World Economic Conference at Geneva 1927 (Final Report, p. 13).

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“The eight years of post-war experience have demonstrated the outstanding fact that, except in the actual fields of conflict, the *dislocation* caused by the war was immensely more serious than the actual *destruction*. The main trouble now is neither any material shortage in the resources of nature nor any inadequacy in man’s power to exploit them. It is all in one form or another a maladjustment—not an insufficient productive capacity but a series of impediments to the full utilisation of that capacity.”

One of the most striking features of the industrial development of the century before the war, was the increasing gap between producer and final consumer as the organization of the transport and exchange of goods developed. This is evidenced not only by the statistics of international trade, but also by the growth of transport within a country. New York is twice as far from San Francisco as London is from Rome; the breadth of the United States is nearly that of the North Atlantic Ocean. Hamburg is nearer to the frontiers of nine countries than it is to Breslau across Germany. In the world at peace, knit together by commerce, it was

indifferent in respect of materials and to a large extent of manufactured goods, whether their source was far or near, or in the country in which they were used or in a foreign country. In all the towns, which contained a rapidly increasing proportion of the population of all civilized countries, dependence on outside supplies was necessarily complete for food and materials and these supplies came from increasing distances. In the country districts only a part of food and very little of other commodities was obtained locally. The civilized world depended on successful trading; and for trade, not only supplies and capital are essential, but also trading connections, credit and confidence. The war destroyed the elaborate and complex network of trade connections in several ways. "Goodwill," that element of a firm's assets which though intangible can be valued, which depends on trade-connections and good credit, was precisely the part of the world's assets which received the severest blows, which may be described as follows.

In the first place, during the war the productive effort of neutral as well as of belligerent nations was directed to new

purposes. New trading-connections were hastily and expensively improvised, and relations with former customers severed. In some cases production (for example of luxury goods) ceased, in others a government took control, in others custom was transferred from one country to another. At the end of the war, the whole selling machinery had to be set up afresh, even within a country.

Secondly, trade between belligerent countries ceased, and even after nine years is only restored partially, and to a considerable extent through new organization.

Thirdly, the boundaries of many European countries were altered, and countries were divided or joined up in new ways. Apart from political and tariff hindrances, of which we speak later, this again means a recasting of trade connections and lines of transport.

Fourthly, the whole system of banking-credit and the organization of the money-market, on which the financing and movement of goods depends, was suspended, controlled or modified. After the war traders and brokers had to find their way in a new world, to learn the frequently

changing conditions and regulations of new countries, to discover what old firms existed and new ones established, and generally to weave afresh the network of interchange.

Fifthly, Russia, the main source of some materials and an important source of timber, wheat and some other goods, and the purchaser of equivalent values in exchange, was completely cut off from international trade for some time, and has not yet a settled place in world co-operation.

The re-establishment of commerce has been a slow and painful process. Though the continental countries suffered most from internal dislocation, and no country with overseas trade has been immune from trouble, it is Great Britain, with her dependence on foreign trade for the supply of food and materials and for a market for her goods, that has had the greatest difficulties to face. It is marvellous that the City of London, in which the financing of so large a proportion of the world's trade is concentrated, should have survived with undiminished vigour.

Though the world's physical capital was thus as a whole rapidly restored and renovated, yet new capital was not readily

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available, the rate of interest was high, the war-impoveryished countries had difficulty in obtaining capital except by loan, and the whole circumstances were complicated by the new development of international indebtedness.

Before the war citizens of different countries had freely lent money to governments, and invested in industrial and other productive concerns abroad. In particular the citizens of Great Britain had a sum estimated in total at £4,000 million invested in the United States, the Colonies and Dominions, in South America and indeed in most countries. Germany had also extensive investments, and France had lent particularly to Russia. The payment of interest on these sums took its place in the normal course of foreign trade; interest coming in the form of imports, new capital going out in the form of exports. Though part of the loans were to Governments, the lenders were in general private citizens.

The war-time history of these investments was very different in the different countries. The British Government obtained possession of, it is believed, about one-quarter of British investments,

giving the owners war-stock in exchange, sold them abroad and used the proceeds for imports of munitions and supplies. Thus it is said that the United States obtained full ownership of her railways by supplying munitions in return for the Stock. The French investments in Russia were lost, as were the English, and the lenders had to look to their own governments for compensation. The external German investments (except those realized during the war) were confiscated, and the proceeds used as a first contribution to reparations and for the losses of persons who had invested in Germany.

Meanwhile the United States had lent large sums, especially to the British Government, which together with a British loan, were transferred to the allies; the loans took the physical form of the supply of munitions and supplies for carrying on the war. At the end of the war there were enormous international debts of Great Britain to the United States, and of France and Italy to Great Britain, and others. As tabulated by Mr. Keynes¹ (*Economic Consequences of the Peace*, p. 254), they were :

¹ With a minor change to rectify the totals.

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TABLE XI. INTERNATIONAL DEBTS, 1919.

£ millions.

Loans to	By United States.	By United King- dom.	By France.	Total.
United Kingdom . . .	842	—	—	842
France	550	508	—	1,058
Italy	325	467	35	827
Russia	38	568	160	766
Belgium	80	98	90	268
Serbia and Jugo- Slavia	20	20	20	60
Other Allies	35	79	50	164
	<u>1,890</u>	<u>1,740</u>	<u>355</u>	<u>3,985</u>

These contain only indebtedness between the allied and associated countries incurred for the purposes of the war.

The Russian debts were irrecoverable. In the sequel the continental countries made terms with the United Kingdom to redeem their debts at a very low rate of interest, and the United Kingdom and the United States agreed to an annual payment from the former of £25 to £30 million over a period of sixty years. On the other side, under the successive reparations arrangements Germany is in debt to the Allies. If Russia is left out of account and all the other debts taken at their face

value, it is seen that on the balance £1,852 million was due to the United States, £330 million¹ due to the United Kingdom, £863 million due from France, and £1,319 million due from other countries. If the United Kingdom had cancelled its balance and Germany paid through the other European countries £92 million annually to the United States, all would have been cleared at 5 per cent. Or, if all the debts had just been cancelled, as being part of the pooling of the resources of the allies, German reparations could have gone directly to make good actual destruction. As it is the whole question of reparations and indebtedness has, as is well known, been a matter of continual dispute and rearrangement.

The actual burden on the United Kingdom of its payment to the United States is slight. Part of it is met by interest from France and Italy and part by reparations; and since the Government holds some property abroad and is otherwise a

¹ £1,740 million was lent *by* the United Kingdom, or £1,172 million if Russia is excluded; £842 million was lent *to* the United Kingdom; hence excess of credits over debts is £330 million. The other balances are computed similarly.

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creditor, its payments in and out nearly balance. Without this payment the settlement of the dollar exchange and the return to the gold standard would have been easier, but the annual sum is small in comparison with non-governmental balances.

The sums thus involved differ from pre-war indebtedness in that they are debts from government to government, not from individuals to individuals or from governments to individuals. The interest thus can (except where it is neutralized by reparations) only be paid out of taxation and it goes mainly to relief of taxation in the recipient country. The sums do not arise, as was largely the case before the war, from the profits of industry, or in return for the provision of public services. But a government is, in fact, to a great extent a passive instrument, for, to make the loan it had to borrow from its citizens, and consequently the payments are made by citizens of one country, through the governments, to citizens of another. This is the reason why the debts cannot be simply cancelled with a fine gesture of generosity.

As a result of these and other transac-

tions the United States has become a creditor, instead of as before a debtor, nation. Formerly her exports of cotton, food, etc., went in part to pay interest on foreign capital invested in her territory. Now that has been redeemed, and on the other hand interest is due to her. Her position as a creditor has been embarrassing to her. In consequence of it more money has had to be lent to make a fund for interest; or in other words property in Germany has been passing into her possession; and in the cases where interest has been paid, after an embarrassing amount of the world's supply of gold had passed into her possession, she was offered imports which she did not want. The method of taking payment in kind by travelling in Europe and so setting up a debt on the other side is only of limited efficacy. The unsettled position actually makes a strain on the exchanges and is an embarrassment to the recovery of a stable position of international trade, and to the settlement of internal finance. France has been in more difficulties from the last named cause than the other Allies.

An additional difficulty, which also affects the analysis in the next chapter, is

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that the debts were contracted when prices were high and the interest is payable when prices are relatively low. That is, more goods have to be repaid than were ever borrowed. This has been met wholly or in part by the scaling down of the rate of interest.

CHAPTER V

NATIONAL DEBTS AND TAXATION

TABLE XII. UNITED KINGDOM DEBT AND INTEREST.

£ millions.

Date.	National Debt.	Year.	Interest, etc. "National Debt Services."
March 31st :			
1914 . . .	650	1913-14 . .	24
1919 . . .	7,435	1918-19 . .	270
1920 . . .	7,829	1919-20 . .	332
1921 . . .	7,574	1920-21 . .	350
1922 . . .	7,654	1921-22 . .	332
1923 . . .	7,742	1922-23 . .	324
1924 . . .	7,641	1923-24 . .	307 ¹
1925 . . .	7,598	1924-25 . .	312 ¹
1926 . . .	7,559	1925-26 . .	308 ¹

The above table shows the total National Debt before and after the war. The increase was about £7,000 million. In it

¹ Excluding payments to Sinking Fund, viz. £40 millions in 1924, £45 millions in 1925, and £50 millions in 1926.

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is included the debt to the United States. On the other side of the account would be debts from British Dominions and Colonies, some £120 million, and whatever is realizable from the debts from the Allies and Reparations payments. In 1919 there were also surplus stores and buildings which were gradually realized. The addition to annual taxation can be reckoned as £300 to £350 million, according as interest received is subtracted and the Sinking Fund payments added or not. The interest on the debt is about 10s. per week per family in the United Kingdom; of this 10s., payment to the United States is 11d.

In addition to this interest we must have regard to War Pensions, which cost £96 million in 1921-2 and had fallen to £67 million in 1925-6, and will in the course of time fall to zero.

We have to consider how this debt arose, to whom the interest is payable, and how it is provided.

As said above, the actual military supplies used in the war were provided by the world's population during the war. In the case of the United Kingdom the great bulk was produced within the coun-

try ; the rest chiefly by the people of the United States, in return for a transfer of ownership of property and an agreed debt. If the whole population and their property had been conscripted during the war there would have been no internal increased debt. As it was workers and owners were paid for their labour and the use of their capital, and invited and pressed to lend whatever could be spared to the Government. Broadly speaking, while the production took place during the war-years, part of the payment was deferred till after the Armistice. A considerable part, however, was abstracted during the years 1914 to 1918 in the form of taxation, which in the five years 1914-15 to 1918-19 was in the aggregate £1,700 million more than it would have been at the pre-war level, and a further £500 million was collected under the Excess Profits Duty in subsequent years.

Expenses of the war continued for some time after the Armistice, and, in all, in the six years 1914-15 to 1919-20 national expenditure exceeded national revenue by over £7,000 millions ; this sum was met by successive war loans and consequently the national debt increased by approximately the same amount.

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TABLE XIII. NATIONAL REVENUE AND
EXPENDITURE.

£ millions.

	Exchequer.		Excess of Payments.	Increase of National Debt.
	Receipts.	Payments.		
1914-15 . .	227	560	333	455
1915-16 . .	327	1,159	822	1,028
1916-17 . .	573	2,198	1,625	1,878
1917-18 . .	707	2,696	1,989	1,860
1918-19 . .	889	2,579	1,690	1,563
1919-20 . .	1,340	1,666	324	394
1920-21 . .	1,423	1,195	—228	—254

The effect on prices of this procedure was indicated in Chapter III. At pre-war values the total lent to the Government was worth only about £3,800 million, and at the same values the interest payable in 1924 was worth £170 million, so that when price variation is eliminated, the rate is only about $4\frac{1}{2}$ per cent. on the average; but each fall of prices makes the payment more burdensome.

It is a mistake to suppose that the debt arose principally out of the ill-gained wealth of profiteers. On the one hand, it was not possible to avoid making profits

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when prices were rising rapidly, and it is a question whether, under the circumstances, lending to the Government was not the most useful way of disposing of them ; also a considerable sum was collected, as stated above, in the excess profits duty. On the other hand, the savings of all classes contributed. At the end of the war the ownership of National Debt Stocks was no doubt very widely diffused, and it has become more diffused as time has gone on, not only among individuals, but among public bodies who represent, in one way or other, a very large number of persons.

After the Armistice it was proposed to redeem the Debt by a capital levy, which many persons thought to be both practicable and desirable, but the difficulties of administering any scheme equitably were undoubtedly great, and the result could not have paid off more than a fraction of the debt. The interest was therefore met by increasing the income-tax and the estate or death-duties ; taxes, which owing to their graduation, fall principally on well-to-do and propertied individuals, who in fact would have been the chief contributors to a capital levy. But they con-

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 tinue to be imposed on the younger
 generation and handicap the reduction of
 taxes or beneficent expenditure.

TABLE XIV. INCREASE OF DIRECT TAXATION.

*Sums received from Taxes, and Expenditure on
 National Debt Interest.*

£ millions.

Year ended March 31, 1914.	1920.	1921.	1922.	1923.	1924.	1925.	
Income Tax	44·5	317	339	337	315	269	274
Super-tax .	3	42	55	62	64	61	63
Estate Duties	27	41	48	52	57	58	59
	—	—	—	—	—	—	—
Total . .	74·5	400	442	451	436	388	396
National Debt							
Services .	24	332	250	332	324	347 ¹	357 ¹

To balance direct taxation in this way
 against the interest on the Debt is princi-
 pally a method of showing the relative
 amounts, for direct and indirect taxation
 make an indivisible whole, which cannot
 be separated and allocated to particular
 purposes.

In the same period, 1913-14 to 1924-5,
 customs receipts increased from £36 million
 to £100 million ; to this increase tobacco
 contributed £35 million and sugar £16
 million. Excise also increased from £40

¹ Including Sinking fund.

NATIONAL DEBTS AND TAXATION

million to £134 million, of which the increment on beer was £63 million and on spirits £23 million.

Perhaps the clearest way to show the relative amounts is to compute the change in the amount of taxation that would have occurred with an increase of 66 per cent. in prices, combined with 5 per cent. growth of population, 75 per cent. in all, from 1914 to 1925.

The adverse balance in 1924-5 was met by miscellaneous special receipts, including £20 million reparations and realization of enemy debts.

In the same interval receipts from Local Rates have doubled, making an "abnormal" addition of about £16 million, which is about the same as the "abnormal" increase in local expenditure on education.

Looked at in this way the increased expenditure on social services, such as education, pensions and insurance was moderate up to 1924 and (including local expenditure on education) was about equivalent to the increase in receipts from excise.

In whatever way we compare the various items of expenditure with those of revenue,

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TABLE XV. INCREASE OF REVENUE AND EXPENDITURE.

Revenue.

£ millions.

	1913-14.	Add 75 per cent. "nor- mal."	1924-5.	
			Actual.	Excess, actual over "nor- mal."
Income tax, Super- tax, Estate Duties	74.5	130	396	285
Excess Profits and Corporation Duties ¹ . . .	—	—	19	
Customs	36	63	100	37
Excise	40	70	134	64
Other taxes . . .	13	23	24	1
	163	286	673	387

Expenditure

£ millions

National Debt . .	24	42	357	315
Defence	77	135	115	20
War pensions . .	—	—	67	67
Old Age pensions, Health Insurance, etc.	21	36	68	32
Education	20	35	49	14
Other	22	39	55	16
	164	287	711	424

¹ Now obsolete.

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it is clear that the increase of the income and super-taxes is principally due to the war, and ought therefore to consider some of its effects in some detail.

Since at the end of the war, at least, the great part of the national debt was due to British citizens, in individual or corporate capacities, the payment of the interest was only a transfer from one group of persons to another; and neither should the capital amount be included in the aggregate property of the nation, nor should the interest be included in its income. If, in fact, each individual received in debt-interest the same sum that he paid in taxation in consequence of the debt, the whole could be wiped out. But since ownership is widely diffused, including, for example, the holders of National Savings Certificates, we cannot reasonably make this simple hypothesis. The super-tax falls wholly on the well-to-do, and a very large proportion of the income-tax comes from persons with over £1,000 per annum, and of estate duties from property worth more than £10,000. These payments then fall on the richer section of the population and increase very rapidly in the higher levels of income and property.

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That is, the payment of the direct taxes falls markedly on the rich, and it is doubtful whether their holdings on the Debt form so great a proportion of the whole, as does the interest paid by them to the total interest.

Since the bulk of savings and investment is made by the rich, the source of annual increases to capital is diminished. This is most marked when a company before using its profits to develop its plant and machinery has to transfer one-quarter of them to meet income-tax. Owing to this and other causes, saving is proceeding less rapidly (allowing for the smaller value of money) than before the war, and the rate of interest remains relatively high.

It is also supposed that high income-tax increases the price of goods and hence diminishes production and employment. Economists generally hold that this opinion is based on a fallacy, or at most that its effect is very small.

There is no doubt that the high taxation has checked Government expenditure, and will continue to handicap the expensive reforms that the Labour Party at least desires.

The effect of taxation on the distribu-

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tion of wealth among individuals is considered in the next chapter.

This problem of internal debt is principally one that affects Great Britain and not other countries. In Germany it is replaced by the question of how to raise taxes to meet reparations. In France and Belgium the main difficulties have been to finance the reconstruction of their damaged land, buildings, mines, and factories.

It is difficult for anyone but an expert to understand the method of taxation and the meaning of the public accounts even in a country of which he is a citizen and taxpayer ; it is almost impossible to master the taxation system of other countries. National, state, provincial and local taxation are interinvolved. The line between public and private expenses differs from time to time and from country to country. The profits of State monopolies and the receipts from State property are difficult to classify, and there are many other obstacles to definition and interpretation on any scheme which is uniform for all countries. In addition to these preliminary considerations we have to take into

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TABLE XVI. THE BURDEN OF TAXATION.
TOTALS.

	Year 1913-14.			Year 1923-4.		
	Amount of Taxation.		Percentage Taxation of National Income.	Amount of Taxation.		Percentage Taxation of National Income.
	Currency, millions.	Sterling, millions.		Currency, millions.	Sterling, millions.	
United Kingdom :		£			£	
National Taxation .	163	163	7½	690	690	18
Local Taxation .	93	93	4	162	162	4
Total	256	256	11½	852	852	22
Germany :						
Total Taxation . .	5,079 1	249	11	7,800 1	413	26
France :						
National Taxation .	3,843 2	152	10	26,300 2	313	15½
Local Taxation . .	1,350	54	3½	3,993	48	2½
Total	5,193	206	13½	30,293	361	18

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Italy :						
National Taxation .	1,732 ³	69	8½	16,000 ³	160	16
Provincial and Local .	—	—	—	4,000	40	4
Total	1,732	69	8½	20,000	200	20
United States :						
Federal Taxation . .	672 ⁴	138	2	3,204 ⁴	733	5½
State Taxation . .	306	63	1	868	198	1½
Local Taxation . .	1,220	251	3½	2,277	519	3½
Total	2,198	452	6½	6,349	1,450	10½

¹ Gold marks. ² French francs. ³ Lire. ⁴ Dollars.

The reduction of currency to sterling is made at par at 1913-14 and at the following rates in 1923-4: £1 = 18·9 gold marks = 84 francs = 100 lire = \$4.374.

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account the relative value of the £, dollar, franc, etc., for international comparisons, and the changing purchasing power of currency in each country.

An attempt is made, principally by the aid of comparative computations published by the League of Nations, to exhibit the salient statistics in Tables XVI, XVII and XVIII. In using them it is to be remembered that comparisons between different years for one country are more reliable than between different countries, that reductions from one currency to another are always difficult to interpret, and that the expression of post-war sums in pre-war values can never be more than a rough approximation.

The first Table (XVI) shows for each of five countries the relation to the national income (that is, the aggregate of individuals' and corporate incomes) of the total amounts paid in taxes. Before the war this proportion for the four European nations was somewhat over 10 per cent. (assuming a reasonable amount for local taxation in Italy), while in the United States the proportion was only half that in France. By 1924 the proportions were generally about doubled in the United Kingdom, and Italy, more than doubled

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in Germany, and increased by about one-half in France and the United States. The increase is, of course, mainly due to the pressure of war debts.

The next Table (XVII) shows the same figures expressed per head of the population. Here we see, for example, that the citizens of the United Kingdom were most heavily taxed after the war, paying £19 per annum per head, while in the United States the average was about £13 and in France £9. In National Taxation alone the United Kingdom, on this reckoning, is twice, or more than twice, as heavily burdened as any other of the countries.

When, as in the final column, we reduce to pre-war values—in England for example taking the pound in 1924 as equivalent to 12s. in 1913—we find that national Taxation in Germany increased in the proportion 3·7 to 6·2 (70 per cent.), in France rather less, in Italy only 30 per cent.; but Federal Taxation in the United States increased nearly three-fold, though as it started at a very low amount, the sum in 1924 is still much lower than in France, Germany or the United Kingdom.

While the burden of national taxation

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TABLE XVII. TAXATION PER CAPITA OF
POPULATION REDUCED TO STERLING.

	Year 1913-14.	Year 1923-4.	
		Actual.	Equivalent at Pre-war Prices.
	£	£	£
United Kingdom :			
National Taxation	3.5	15.5	9.6
Local Taxation .	2.0	3.5	2.2
Total . . .	5.5	19.0	11.8
Germany :			
National Taxation	3.7	6.7	6.2
France :			
National Taxation	3.7	7.8	5.9
Local Taxation .	1.3	1.2	0.9
Total . . .	5.0	9.0	6.8
Italy :			
National Taxation	2.0	4.0	2.6
Provincial Taxation	— ¹	1.0	0.7
Total . . .	—	5.0	3.3
United States :			
Federal Taxation .	1.4	6.6	3.9
States Taxation .	0.7	1.7	1.0
Local Taxation .	2.6	4.6	2.7
Total . . .	4.7	12.9	7.6

The territory in 1923-4 differs for each of the four European countries from that in 1913-14.

The reduction to equivalent at pre-war prices is computed on the basis of the wholesale price index-numbers in each country, allowing for the change of the rate of exchange of local currency against sterling.

¹ Not known.

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has everywhere greatly increased, local taxation (rates in England) has, after allowance for the growth of population and the change of prices, not altered greatly. In France, reckoned in sterling, it has actually fallen, but reckoned in francs it has increased threefold, and for local expenditure the franc should not be so heavily discounted as the rate of foreign exchange (used in the Table) suggests.

In the Table (XVIII) relating to Public Debts only part of the circumstances can be shown, for the International debts arising from the War and Reparations claims were not settled in 1924. Also the other side of the account, the debts due to the countries, are omitted. Even after allowance for sums possibly recoverable by the United Kingdom, the burden of debt and its increase since 1913 are much heavier in the United Kingdom than in the other countries to which the Table refers. Sweden is included in the Table to show that in neutral nations also there has been an increase in National Debt and a change in proportion of domestic to foreign.

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TABLE XVIII. PUBLIC DEBTS OF CERTAIN NATIONS

(Reduced to £ at average rates of exchange.)
Per capita of Population.

	Year 1913-14.	Year 1924.	
		Actual.	Equivalent at Pre-war Values.
	£	£	£
United Kingdom :			
Domestic . . .	15	147	88
Foreign . . .	—	25	15
Total . . .	15	172	103
France :			
Domestic . . .	32	83	57
Belgium :			
Domestic . . .	23	39	28
Foreign . . .	1	11	8
Total . . .	24	50	36
Italy :			
Domestic . . .	18	23	15
Sweden :			
Domestic . . .	1	14	8
Foreign . . .	5	3	2
Total . . .	6	17	10
United States :			
Domestic . . .	2·5	43	26

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It is not possible to deal briefly with the position of Germany, but something must be said of the vicisitudes of the French public finance.

The French system of taxes is not elastic, and no very successful effort was made to meet the expenses of the war as they occurred, so that debt increased rapidly. Even during the war a category was introduced of expenditure that was recoverable from Germany after a victorious issue, and after the war the large sums spent in restoration of the devastated areas, together with interest, were marked as recoverable by reparations payments ; so that the annual budget was made in two parts, of which only the first was to be met by taxes and other normal sources. In 1920 the "recoverable budget" was 12,300 million francs, equal to about £250 millions, rather more than one-fifth of total expenditure in that year. The recoverable budget was merged in the general budget in 1924, and since that date there has been a serious effort to balance revenue and expenditure.

The relation between whole expenditure and revenue in the post-war years is stated to have been as follows.

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TABLE XIX. REVENUE AND EXPENDITURE IN FRANCE.

Year.	Expenditure.	Revenue for Sources other than Borrowing.	Deficit.	Exchange Rates, Francs to Dollar.	Wholesale Price Index.	Cost of Living Index.
	Million Francs.			Par 5·18.	100 in 1913.	100 in 1913.
1919	54,200	11,600	42,600	7·3	356	238
1920	58,100	20,100	38,000	14·3	509	342
1921	51,100	23,100	28,000	13·5	345	309
1922	48,900	24,200	24,700	12·3	327	295
1923	45,800	23,800	22,000	16·6	419	333
1924	45,500	29,000	16,500	19·3	489	369

While the continuing deficit increased aggregate debt, there was a continued issue of currency, the foreign exchange rose sharply against France, and the wholesale prices of goods rose to nearly five times the pre-war level. Internal prices were rather more moderate, and it is estimated that the cost of living was in 1924 between three and four times that in 1913.

The exchange rose further to a maximum of 31 francs to the \$ in 1926, and was stabilized at 25·5 francs in June 1928, and

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public finance and commerce and dealing are settling down at this reduced value of the franc.

Though the history of German finance since the war is too intricate to admit of summary treatment, yet it is essential for any general view of the European economic situation to give a short account of reparation payments. The question of what Germany could pay could not be decided simply by reference to her National Income and the height of taxation as compared with that in other countries, for after the war her difficulty was to re-establish industry in any way and to balance her national budget at all. Increase of taxes might well have resulted in a destruction of her Government. By 1924 or 1925 these difficulties were overcome, and as is shown in Tables XVI and XVII the total burden of taxation was not excessive as compared with that in other countries. The scale of reparations payments since 1924 has been, as far as is known, about 3 or 4 per cent. of the National Income, and the sums are much lower than the interest of the National Debt of the United Kingdom. But after the stabilization of German

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currency and the scaling down and fixing the amounts of reparation payments, there is the difficulty of transferring these payments to the creditors.

Till 1930 this problem has not become acute, since the United States has invested large sums in Germany, which, though not available for direct payment of reparations, have made possible a balance of trade out of which such payment has been possible. But in the end payment must be made by actual exports from Germany, and these are of the kind that compete with the industries of the creditor countries ; so that there is the paradoxical situation that Germany is prepared to pay and the creditors wish to be paid, but no means of payment is acceptable. The whole sum in question, some £100 millions a year, is not large in comparison with the whole volume of international trade, or with the usual annual movement of capital or interest ; and opinions differ as to the amount that can be transferred without serious disturbance.

In the following paragraphs a summary is given of the amounts of payment demanded and made in the eleven years 1919-29.

NATIONAL DEBTS AND TAXATION

The Treaty of Versailles, June 28th, 1919, established a Reparations Commission, which, beside providing for the expropriation of the property of the German Government or German nationals outside Germany, was empowered to demand £1,000 million to be paid before May 1st, 1921, in gold, commodities, ships, securities and otherwise. In fact, Germany paid about £110 million in this period in cash and materials, but was also credited with the value of State property in territories ceded to the Allies.

On May 1st, 1921, the Reparation liability was divided into three classes of bonds, A, B and C. The first two amounted to £2,500 million, to be paid at 5 per cent. with 1 per cent. sinking fund, that is at £150 million per annum. The third, C bonds, were about £3,700 million, the interest of which was to be paid from any surplus after that on the A and B bonds had been met. Actually only about £125 million (including the value of deliveries in kind) was paid in the twenty months to the end of 1922. During these months the exchange value of the mark, which averaged 407 marks to the £ in 1921 (a twenty-fifth part of its nominal gold value)

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fell to 35,000 marks to the £ (7,600 to the \$) in December 1922.

Early in 1923 the Reparations Commission declared Germany to be in default, and the French and Belgians occupied the Ruhr district. Reparation payments were then in abeyance.

In 1924 a Commission of Experts, called the Dawes Committee after its American president, considered the whole position, and made a report on April 9th, which was adopted in August. The aim of the Dawes plan was “(1) to set up machinery to provide the largest annual payments from Germany; (2) to enable maximum transfers to be made to German creditors; (3) to take the question of ‘what Germany can pay’ out of the field of speculation and put it in the field of practical demonstration; (4) to facilitate a final and comprehensive agreement upon all the problems of reparations and connected questions, as soon as circumstances made this possible.”

In the first place a loan of £40 million (more exactly 800 million gold marks) was to be made to Germany to enable her to establish her currency. The interest on this (with sinking fund) was independent

of Reparations. The currency then became "gold marks," that is marks exchangeable for gold at the pre-war rate. Its exchange value has been maintained since its establishment to the date of writing (1930).

The Reparation payments were fixed at £50 million (1,000 million gold marks) for the first year (September 1924 to August 1925), £60 million for 1925-6, £59 million for 1926-7, £86 million for 1927-8, and £123 million (2,500 million marks) in 1927-8. The last-named sum was to be the standard for future payments up to 1950, but was to be increased or diminished according to a defined index of prosperity, which need not be described as it never came into force. The capital value of these and further payments is estimated at about £2,000 million, that is less than the A and B bonds of 1921.

The money was to be collected in Germany from railway bonds, industrial debentures and general budget surplus, and to be paid to an Agent for Reparations Payments in Germany. The value of payments in kind (coal to France, etc.) was credited as part of the payment. The Agent-General transferred the sums to

other countries when the exchanges were suitable.

These sums were duly paid up to August 31, 1929.

In 1929 the whole question was reconsidered by a committee of experts at Paris (the "Young" Committee), and its recommendations after some modifications were adopted at a conference at the Hague in August, while final details of outlying problems were arranged in January, 1930. The new scale of payments is lower than those arranged in 1924, and the index of prosperity was dropped. Beginning with £80 million in 1930-1 they are to increase gradually to £115 million in 1865. Then they will remain at £80 million till 1984-5, drop to about £45 million for three years and then cease, seventy years after the Armistice.

A Bank for International Settlements was established in 1930, as part of the plan. Reparations will be paid into the Bank, and creditor Nations will draw from it. It will also have more general functions, in being the Central Bank of Central Banks for many international purposes.

CHAPTER VI

CHANGES IN DISTRIBUTION OF INCOME UNITED KINGDOM

THE total of the Incomes of individuals, as usually reckoned, is estimated in the United Kingdom in 1924 to have been rather more than double that in 1913,¹ but three important corrections or explanations are needed to interpret this statement. First we should allow for an increase of 5 per cent. in population, which makes the money income per head just twice that of 1913, i.e. £93 against £46 10s. Secondly we must estimate the change in the value of money, which cannot be known exactly, but may be taken as that due to a rise in retail prices of about 80 per cent., so that £46 10s. in 1913 was worth as much as about £84 in 1924.

¹ Southern Ireland excluded in 1913 for comparability.

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Thirdly, when we are considering National Income as a whole, we must take into account the fact that considerable sums are transferred through taxation and rates from one group of people to another. When taxes are expended in administrative services or general benefits or for actual production, the individual loses direct control over the money he pays to Government, but the national or social income is unchanged; but where the receipts from the taxes are paid to other individuals for past services or as gratuities (as opposed to current services or production), as is the case in payments of interest on the national debt¹ and of war pensions and non-contributory old-age pensions, we have a double reckoning if we count the sums as income of the recipients as well as the payers, and, therefore, we must subtract the amounts from one group or the other. On these counts 6 per cent. must be taken off for interest on debt and 2 per cent. for pensions, so that the average income in 1924 is reduced to £86, that is as nearly as may be to the same value as

¹ It happens that in 1924 reparations and other receipts balanced payments to the United States, so that both can be ignored.

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in 1914, allowing for growth of population and change of prices. This approximate result is obtained both from statistics of income (including wages) and from the censuses of Production, after intricate analysis.

There are many different ways in which income can be classified.

As to the proportionate division between aggregate income from property and income from earnings (salaries and wages), there has been little change in the eleven years. There has been a considerable fall in the property income from abroad, but some relative increase from that derived from home sources. If, however, we exclude the interest on the national debt, we find that income from home property has only increased from about £445 million to £752 million, whereas the amount in 1924 after allowance for the increase in prices and population should have been £840 million for equivalence with 1914. This deficit is attributable to lack of increase in the income from ownership of land and railways and insufficient increase from ownership of houses to compensate the rise in prices ; if these are left out of

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the reckoning some increase in the remainder (after allowing for the diminished value of the £) is found in the income from home property.

Wages in the aggregate increased at a rate just perceptibly faster than that of prices and population combined.

The differences so far are to be found in a loss of income from abroad, from real property and from railways, and in an increase of income from the national debt. Further analysis, however, reveals more important changes.

Before proceeding to this analysis it is well to try to clear away some popular misconceptions. Casual observers and readers of newspapers, especially in the South of England, are impressed by the apparently lavish expenditure on luxuries and pleasure especially in London and at seaside resorts. There appears to be money for every kind of amusement, for expensive flats, for motor-cars, travel, games, gramophones and wireless apparatus, and this seems inconsistent with the statisticians' estimates that real average income is no greater than before the war, and also with the continual complaints of the burden of taxation. The explanation

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of the discrepancy is to be found in several less evident observations. Actual luxurious expenditure has always been evident in London and fashionable resorts ; much of it is by colonial and foreign visitors and in these and other cases is not expenditure of income derived from home sources. In such places we find the successful ; but the unsuccessful and the poor do not appear in public or in the society newspapers. A quite different impression would be obtained in some of the manufacturing districts and especially in South Wales. Generally south-east England has since the war been more prosperous than the rest of the United Kingdom. There has also been a transference of spending from the larger country houses to the towns, and from payment for domestic service to other purposes. Further there has been a change in fashion among all classes with the general result that pleasure expenditure has been more visible. More important, however, than any of these is the relative reduction in saving ; if investment had continued in the same proportion to national income as in 1913, from £100 to £200 million more would have been saved and less spent. The following table throws

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light on this, though it cannot pretend to
minute accuracy.

TABLE XX. INCOME, SAVING AND EXPENDITURE.
Great Britain and North Ireland.
Approximate Estimates.
£ millions.

	1911.		1924.
	Actual.	Increased by 80 per cent. for Prices and 7 per cent. for Population.	Actual.
Saved	350	675	475
Paid in rates and taxes	240	460	855
Spent freely . .	1,570	3,020	2,835
Total . . .	2,160	4,155	4,165

The only definite statistics existing in connection with the distribution of income at both dates are those of incomes assessed for super-tax. In 1914 a super-tax was levied on all incomes over £5,000 a year of 6*d.* in the £ on the excess over £3,000 ; so that at £5,000 the tax was £50, at £6,000 £75, at £10,000 £175. At the same time

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income-tax on unearned income was 1*s.* 2*d.* in the £. The combined rate of the two taxes was about £150 on £3,000, £315 on £5,000, £730 on £10,000, £8,230 on £100,000.

In 1924 income-tax was 5*s.* 6*d.* in the £, and was reduced to 4*s.* in 1925 (with numerous allowances reducing the tax on, say, £1,000, to about 2*s.* in the £), and super-tax began at £2,000, being at 9*d.* for the first £500 in excess, and rising till all income in excess of £10,000 paid at 6*s.* in the £. Thus with income-tax and super-tax the highest incomes were reduced by nearly one-half in 1925, as compared with a reduction of one-twelfth in 1914. The 1925 rates of tax are used in the following paragraphs, rather than those in 1924, since it remained unchanged for five years, and it is applied to the incomes of 1924-5, a year out of date.

The effect of this on the number of the rich, say those with £10,000 or more at either date, is very marked. Before taxation there were nearly 5,000 such incomes in 1914, and 9,200 in 1925; but if we count incomes after taxation only 4,000 reached £10,000 in 1914 and about 4,120 in 1925.

But to get an equivalent to the £10,000

ECONOMIC CONSEQUENCES OF THE WAR of 1914, about £18,000 is needed in 1925 to meet the rise in prices; and to leave £18,000 net it is necessary to have more than £30,000 gross, and only 1,300 incomes reached this amount. Hence the number of the rich, defined as those who had £10,000 to spend (or save) in 1914 and the equivalent amount in 1925, has fallen from 4,000 to 1,300. Similar computations for other grades of income are given in the following table :

TABLE XXI. INCOMES ASSESSED TO SUPER-TAX.

	Number with Gross Incomes above this.		Equivalent Income Limit allowing for rise of Prices.	Number above Limit.
Income Limit :	1913-4.	1924-5.	1924-5.	
£			£	
3,000 .	32,500	53,400	5,400	24,000
10,000 .	5,000	9,200	18,000	3,500
50,000 .	310	560	90,000	175
<i>After deduction of Income and Super-Tax.</i>				
Net Income Limit:				
£			£	
3,000 .	30,000	43,000	5,400	13,700
10,000 .	4,000	4,100	18,000	1,300
50,000 .	260	180	90,000	60

The numbers are only approximate.

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The actual yield of super-tax in 1913-4 was only £3,320,000, assessed on incomes over £5,000, whose aggregate was £176 million. The income-tax on this sum was about £10 million. In 1924-5 the yield of super-tax was £68,500,000, assessed on incomes over £2,000, but we may as well confine ourselves to incomes over £5,000. These aggregated £326 million, on which the super-tax was about £66 million. The income-tax and super-tax are steeply graded, with numerous allowances on small incomes ; so that the rate is very moderate for a married man with less than £1,000 a year. The effect is to diminish very markedly the great inequality of incomes, so far as this is due to great wealth. At the same time the death-duties cut continually at the amassing of wealth.

The combined effect of the rise of prices, of income-tax, super-tax, and death duties, and the stationariness of income from land, has been to destroy the wealth of many landed proprietors, lead to the closing of some country houses and selling of others, and also to the selling of many farms, so that the former tenants are now owners.

The " unearned " income of owners of capital and property of all kinds, whether

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from home or abroad, was about £700 million in 1914 and £1,200 million in 1924. If we subtract all incomes over £5,000 per annum at the first date, and all over their equivalent, £9,000, at the second date we are left with £525 million in 1914, and rather more than £950 million in 1924, for the aggregate property income of the less rich. This increase is about equivalent to the rise of prices, and the net income after tax is subtracted and the allowance for prices is made is considerably lower at the latter date. We have no information about the number of owners of capital, except some indication that property is more diffused than before the war. The conclusion is, therefore, that the re-distribution of unearned income in the direction of less inequality has extended downwards below the super-tax limit.

Of course many of the incomes that are derived principally from earnings and salaries include some income from property, and vice versa, and in the present form of the income-tax returns we know nothing about the number or amount of these mixed incomes; nor do we know at all accurately the incomes of persons and firms employing their own capital. But

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we can take one further step in the amount and number of salaries.

The number of persons paid by salaries, distinguished from wages mainly by the type of work, increased very considerably during the decade 1914 to 1924, especially among women. It is estimated that there were twice as many salaried women at the latter date than at the former, while the number of salaried men increased 50 per cent. The detail and the causes of the change are a little obscure. There has been some movement in the higher incomes to replace owners by salaried managers, as private firms have been transformed into limited companies, but the actual numbers concerned are small. There has certainly been a greatly increased employment of women typists and clerks in the government service and in business and other offices. It is perhaps not unexpected to find 1,100,000 salaried girls and women instead of 550,000. But it is surprising to find at the same time an increase among males from about 1,100,000 to 1,700,000. These changes are too great to be explained by any uncertainty or change of definition.

The movements are shown quite de-

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 finitely in the reports of the Censuses of
 Production, which cover mining, building,
 manufacturing and all other productive
 industries.

TABLE XXII.—NUMBER OF SALARIED PERSONS.

Administration, Technical and Clerical Staff (as reported in Census of Production).				Operative Staff.
Year.	Males.	Females.	Total.	Total.
1907	406,400	66,700	473,100	6,214,000
1924	587,000	168,000	755,000	6,858,000

The explanation is in part that increasing attention is given to organization, recording and analysis, and that a larger staff is needed for government requirements in administration of the insurance acts and other ways.

In 1914 the estimated income of the 1,600,000 or 1,700,000 salaried was about £210 millions; in 1924 the number was about 2,850,000 and the aggregate income £750 millions. The average salary thus increased from about £130 per annum to about £260, a rise which is definitely more than that of prices, and only counter-balanced by increased direct taxation in

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the higher grades. The figures are consistent with a very rough estimate that the average of women's and girls' salaries increased from 26s. to 50s. weekly and of men and boys from a little less than £3 to rather more than £6. But these estimates, even if correct, would reflect change in occupation as much as change in relative salaries. On the whole the tendency has been for women to replace men in the lower grades and in routine work, and the general movement has been to increase the numbers in the less responsible posts.

Before considering the changes in wages for manual work, it is convenient to examine more in detail whether there has been replacement of men by women in industry, a subject already discussed broadly on pp. 58-60 above. Women were obtaining an increasing part in some industries, e.g. printing, before the war. The following table (compiled from the Summary of the Preliminary Reports of the Census of Production of 1924) shows the broad changes over 17 years. The operative staff contains manual workers, foremen, etc., as distinguished from the administrative staff.

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TABLE XXIII.—OPERATIVE STAFF.
United Kingdom.

	1907.		1924.		Females as Percentage Males.	
	Males.	Females.	Males.	Females.	1907.	1924.
	000's.	000's.	000's.	000's.		
Iron and steel, shipbuilding, engineering, etc.	1,064	72	1,177	136	6.8	11.5
Textiles	452	665	430	667	147.1	155.2
Clothing	188	453	175	411	241.5	234.9
Food, drink and tobacco	240	117	251	161	49.0	64.0
Paper and Printing	174	98	182	111	56.0	61.2
Timber and Furniture	173	20	155	28	11.7	17.8
Building and building materials	616	37	562	47	6.0	8.4
Public Utilities	544	5	662	6	0.9	0.9
Other trades	276	83	303	127	30.0	41.8
Total	3,727	1,550	3,897	1,694	41.6	43.4

Mining and Agriculture excluded.

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The principal relative increases in the number of females are to be found in the industries of engineering, motors and cycles, biscuits, aerated waters, furniture and chemicals ; but in some of these, it is not so much a question of replacement of men, as of the development of new branches of the industries specially suited for women's work.

While the changes of industrial occupation that have taken place in Great Britain might very well have occurred apart from the war, some of the changes in wages are definitely a war product.

In the decade before 1914 prices were slowly rising and the change even in average wages barely kept pace with them, so that in some industries men paid by weekly wages were in fact losing ground. Some general increase in money wages was to be expected, and, for example, builders in London were on the point of striking when the war broke out and industrial peace was declared. At the same time it was held that wages in agriculture and on railways were unduly low in comparison with other occupations, and the establishment of legal minimum wages in certain so-called "sweated" industries was on its

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trial and nearly ripe for extension. In August 1914 there was dislocation and some fear of unemployment, but after a few months the demand for labour could hardly be satisfied and with full-time work there was no movement for higher rates of wages. In 1915 the rise of prices began, and the first step to meet this was the granting of a war bonus, which was in general the same weekly amount for all grades of labour, on the ground that physical needs for food were the same for everyone. This principle once adopted prevailed in very many of the numerous wage changes during the war.

TABLE XXIV.—APPROXIMATE GENERAL AVERAGE WEEKLY TIME WAGES IN CERTAIN OCCUPATIONS.

	1914. August.	1919. July.	Increase.	
			Actual.	Per-centage.
	s.	s.	s.	
Fitters and turners .	39	77	38	97
Engineering labourers .	23	58	35	152
Building artisans . .	42	79	37	85
Building labourers . .	29	65	36	124
Agricultural labourers .	17	38	21	126

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The increase in the cost of living during these five years is variously estimated at 85 and 110 per cent.

After 1919 money wages varied fairly closely with retail prices for five years, descending from a maximum in 1920 to a temporary minimum in 1923, and rising again till October 1924, since which date the changes were few and unimportant except in Agriculture and Mining till at least August 1929. For December 1924 the Ministry of Labour estimated the general rise of the Cost of Living since July 1914 as 81 per cent. and the increase of weekly wages as 70 to 75; but the computation of the latter neglects increases due to change of occupations and change from time to piece-rates,¹ and when these are included (as in calculations based on the wage-census of 1924), the increase of earnings is found to be

¹ In engineering between 1914 and 1925 nominal time-rates increased 60 per cent., but owing to changes in relative numbers in different occupations the average of time-earnings increased 71 per cent. Piece-earnings increased 75 per cent., but owing to the relative increase in the numbers of piece-earners, who obtain more than time-earners, the average of the two groups combined increased more than that of either separately, viz. 78 per cent.

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about 94 per cent. for persons fully employed. From December 1924 to December 1929 the cost of living fell about 7 per cent. and wages about 1 per cent., changes which will be considered presently (pp. 161 seq.).

In 1919 and 1920 working-hours were generally reduced, so that on the average the duration of the week's work was 10 to 13 per cent. less in 1924 than in 1914. The wage figures just given are for the week customary in each period. The main general change over the 10 years that include the war was a reduction of hours, since the average increase in weekly wages did not greatly exceed the rise of prices.

But while the real wages¹ of skilled workmen were little, if at all, greater in 1926 or in 1929 than before the war, those of unskilled men had increased greatly. Mr. Rowe (*Wages in Practice and Theory*) gives a series of tables which may be summarized as follows :

¹ The change in real wages is the change in money wages corrected for the alteration in prices or the purchasing power of money.

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TABLE XXV. A.—COMPARISON OF WAGES OF
ARTISANS AND LABOURERS.

	Weekly Wage-rates (end of year).		Wages in 1926 as percentages of those in 1913.	
	1913.	1926.	Money Wages.	Real Wages.
	<i>s. d.</i>	<i>s. d.</i>		
<i>Skilled Grades.</i>				
Bricklayers	38 11	70 10	182	104
Coal-getters	46 6	78 10	170	97
Mule-spinners (Cotton)	41 5	76 8	189	106
Turners	38 2	61 9	162	93
Engine Drivers . . .	42 11	88 1	205	117
<i>Semi-skilled Grades.</i>				
Painters	34 7	70 10	205	117
Putters (Coal) . . .	34 0	57 0	168	96
Grinders (Cotton) . .	29 5	56 10	193	110
Machine men (Engineering)	30 7	52 2	171	98
Railway Guards . . .	30 9	66 5	215	123
<i>Unskilled Grades.</i>				
Building labourers . .	25 9	54 7	212	121
Mining labourers . . .	30 6	53 2	174	99
Women weavers (Cotton)	21 11	43 0	196	112
Engineering labourers	21 10	40 2	184	105
Goods porters	22 1	49 1	222	127

Real wages in 1926 are obtained by
dividing money wages by 1.75 to allow

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for the rise in the cost of living. Thus the increase of bricklayers' wages was 31s. 11d. on 38s. 11d., i.e. 82 per cent.; but the 70s. 10d. in 1926 was only worth about 40s. 6d. at the prices of 1913, which is an increase of only 4 per cent. on the 1913 wage.

TABLE XXV. B.—WAGES IN LESS SKILLED OCCUPATIONS AS PERCENTAGES OF THOSE IN SKILLED IN EACH INDUSTRY AT EACH DATE.

1913.	Building.	Mining.	Cotton.	Engin- eering.	Railways.
Skilled . .	100	100	100	100	100
Semi-skilled	88	73	71	80	72
Unskilled .	66	66	53	57	51
1926.					
Skilled . .	100	100	100	100	100
Semi-skilled	100	72	74	84	75
Unskilled .	77	67	56	65	56

Though women weavers are placed in the unskilled grade, this is really an awkwardness of classification, and only illustrates the fact that skilled women's wages only equalled unskilled men's wages.

At first sight it seems impossible to draw general conclusions from these tables,

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and in fact the changes are the results of a great many factors.

The great relative improvement in earnings of unskilled labour was partly lost by flat-rate reductions after 1920, but the formula that in building unskilled should be rated at about three-quarters of skilled, instead of two-thirds as before the war, was finally established. This change is in fact typical of what occurred in wages of labour generally outside the building trades, and is similar to the change shown in engineering.

On railways porters' wages have increased very considerably, but the proportion to engine-drivers' wages has only increased moderately because of the great increase in rates for the latter. In fact engine-drivers and printers' compositors are two of the few skilled occupations in which the increase in real wages has been very marked.

In the cotton industry wage increases have generally been on a uniform percentage basis, not on a flat basis as has been usual elsewhere, and consequently the proportions between grades have changed very little. In mining, though very many different formulae have been used from

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time to time, the net result has been much the same as in cotton.

Of the five industries discussed, Mining, Cotton and Engineering are subject to acute foreign competition, while Building and Railways in general are immune from it. A rather hasty generalization is frequently made that in the "unsheltered" industries wage-increases have been less than in those "sheltered." The first part of the table supports this view as a whole, but cotton is an exception in the skilled grades, and wool and some other industries afford other exceptions. The exception, however, is a test of the rule, for the great depression in the cotton industry is partly attributable to the high level of wages. It is believed that other exceptions may be found in some branches of engineering, where payment is by piece-rates. On the other hand, further illustration of the high rates for sheltered trades is found in the high rates of employees of local authorities. Agriculture is an unfortunate example of the fate of an unsheltered trade; there wages have barely increased as much as the cost of living, but the workers have benefited to an unknown extent by increased overtime, since the standing wage

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is paid for a reduced number of hours, which are often insufficient for agricultural requirements.

The rise in wages of all operatives in the sheltered industries and of unskilled labourers in all industries is no doubt partly the result of a determined effort to raise the standard of living, at almost any cost in unemployment, and is partly due to the increased power of the workers' organizations, helped by the existence of unemployment insurance. At the end of the war the standard of living of the unskilled was raised, and there were many ill-considered promises that generally this standard should be at a level worthy of the heroes of the war; ill-considered, because the speakers had no power to give effect to them, and it was quite certain that the country was poorer than before the war. But public sympathy was with the aspiration, and there has been very great reluctance and little power to enforce any reductions more than commensurate with the fall of prices. Though public sympathy cannot provide the means of paying wages, yet high wages may force employers to pay more attention to making the best use of labour, a question which

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is considered in Chapter IX below. At any rate, it has been possible to maintain the rates of wages of municipal employees at the public's expense.

The forcing up of unskilled wages has been in part at the expense of skilled. If we combine the three rates named for engineering, we find that three men, skilled, semi-skilled and unskilled, together earned 90*s.* 7*d.* in 1913 and 154*s.* 1*d.*, an increase of 70 per cent., while the separate increases were 62, 71 and 84 per cent. This is quite possibly a deliberate policy of the workers' organizations, who desire a "living wage" for all their members. It is helped by the high rates for unskilled work paid by local authorities. But it may be in part the result of an accident, and attributable to the belief in 1915 that the war would soon terminate, and wages and prices return to their former level, so that temporary bonuses were all that were needed. There are yet two further explanations. The existence of unemployment benefit has been more important for unskilled than for skilled men, in enabling them to exert pressure (without an actual trade dispute) against reduction of wages; and in quite another region of develop-

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ments, the war showed that much that was considered skilled work could readily be learnt by newcomers, and since the war there has been a replacement of skilled work by machinery, so that skill no longer deserves the same premium from the employer's point of view.

Whatever the causes, the effects of the improvement of unskilled wages are very important, and are by no means confined to Great Britain, nor indeed to manual labourers. On the last point we may instance the fact that the yearly salaries of Civil Servants in England increased 81 per cent. from 1914 to 1922 where the salary was £100 in the earlier year, but the increase was less as the grade of salary was higher till it was only 42 per cent. on a basic salary of £500. With respect to the movements in other European countries the annexed table is illuminating. Actual money wages varied considerably in 1914 from one country to another, and still more in 1924 with the difference in price-changes and currency. The comparison is made by taking each occupation in each country, and first reducing 1924 wages by a measure of the changed cost of living to their equivalence at pre-war

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values, and then expressing the result as a percentage of the 1914 wage. This method affords no comparison between the actual wages in different countries or different occupations, but only the relative movements for an occupation locally ; e.g. in Italy skilled builder's real wages rose 18 per cent. in the 10 years, while in Austria they rose 36 per cent.

In Poland, Austria-Hungary, Germany, France, Spain, Sweden, Norway and Denmark wages of skilled workmen have risen less (or fallen more) than of unskilled. In Italy and Czechoslovakia there is little difference, but in Switzerland the movement is opposite.

Again if we look at the change in builders' wages, "sheltered" in all countries, we find that they have risen more than those in metal trades in Italy, Austria, and Denmark, while the opposite (so far as the table shows) occurred only in Norway.

The relation of women's to men's wages has changed in a similar way to that of unskilled to skilled, but from different circumstances. Women's wages rose during the war, as work in munitions developed and as women replaced men in different

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TABLE XXVI.—REAL WAGES IN 1924 AS
PERCENTAGES IN EACH CASE OF WAGES IN 1913-14.¹
Weekly time-rates.

	Building.		Metal or Engineering.	
	Skilled.	Unskilled.	Skilled.	Unskilled.
Italy (Milan) . .	118	115	92	90
Hungary . .	—	—	73	75
Austria . .	136	150	106	118
Czechoslovakia	88	84	86	88
Poland . . .	—	—	69	83
Germany . .	89	95	90 ²	97 ²
France . . .	102	128	—	—
Switzerland . .	130	121 ³	127	114 ³
Spain . . .	113	117	98	157
Denmark . .	135	143	127	125
Sweden . .	116	140	—	—
Norway . .	89	97	106	122

occupations. Except for definitely skilled occupations, the wages of women in industry in 1914 in England and Wales were generally nearer 3*d.* than 4*d.* an hour; the average may be estimated at about 13*s.* 6*d.*

¹ Compiled from *Europa Year Book*, 1926, pp. 556-7.

² All industries, including building and engineering.

³ In 1923.

for about 55 hours for women over 18 years, when specially skilled workers are excluded. At the end of the war 30s. to 35s. was normal, while prices had increased only 80 per cent. When munitions work was over and the men returned to their former places, women were not so much in demand and their wages did not rise in proportion to prices in 1919 and 1920. We can get the best view over the whole period by comparing the rates regulated by the Trade Boards in 1924 and 1914. In 1924 the hourly rates were usually $6\frac{1}{2}d.$ to $7d.$ for the lowest grades of adults work and the number of hours weekly were 48. The week's wage may therefore be put at about 26s., nearly twice that before the war, and allowing for the change of prices, the increase in real wages was about 10 per cent. But there has been a levelling up of the lowest wages and of course the advantage of shorter hours. Besides this an increasing number of women, who would formerly have been on factories, are now earning more as typists, etc.

As regards other countries we read that "for Germany, Austria, Norway, Sweden and Denmark the real wages of female workers relative to 1914 are (in 1925) higher

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than those of male workers. For this reason, doubtless, industries in which a large number of women are employed, such as the textile trades, show usually a higher level of real wages than other industries" (*Europa Year Book*, 1926, p. 137). By these phrases is to be understood that the change in wages is greater, not the actual wages. As a result of these changes the prices of goods mainly produced by unskilled women's work have risen more than prices in general.

In comparing the circumstances of manual workers with the richer classes we must refer further to taxation. Except for specially highly paid workers and a relatively small number of skilled unmarried men, income-tax is not paid by wage-earners, and where it is paid it is, owing to the system of allowances and graduation, quite small. The taxes on tea, sugar, etc., are no greater than before the war. The only increases that affect the working class are in taxes on tobacco, alcohol and entertainments. The first two are very considerable, and for the ordinary fairly careful man, who drinks and smokes, may amount to 10 per cent. of his wages, though he can regulate it as he pleases.

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Against this, in comparison with the richer classes, we can fairly put the control of rents, which has kept the cost of living down; so that in making comparisons with other classes (who also, of course, pay indirect taxation) we may ignore the increase of taxes other than income and super-tax without serious error. We ought also to bring into account the increased expenditure of the government and by employers on insurance for unemployment and sickness and for old age pensions, which result in more than twice the benefits that could be attributed to the wage-earners' payments.

The general result of the whole system of taxation, wage-adjustments, and social expenditure has been a very marked redistribution of the National Income, which in the aggregate, as we have seen, was nearly the same per head in 1924 as in 1914. The very rich have less than half their pre-war income (allowing for taxes and change of prices); the least well-off of the working class have gained most. Between these two extremes, the tendency is almost throughout in the same direction. The skilled artisan had gained little by 1924, except the reduction of working

hours ; those with lower wages have gained and persons with higher incomes have lost, in general, though there has been considerable variety in the fortunes of individuals. This general statement must, however, be qualified by reference to unemployment in those industries and localities in which it is severe, and to the hard case of persons with small fixed money incomes and unable to earn.

All these general statements apply to 1924 or 1925. Since then the return to a gold standard in April 1925, which in one sense marked the end of the currency dislocation in Great Britain due to the war, has had the effect that always marks the return to currency rectitude after inflation. Prices of imported food and materials and of all goods with a world market have fallen, but money wages have changed very little and therefore the cost of manufacture and distribution is nearly unchanged. The Cost of Living has fallen and consequently real wages have risen, so that artisans are more definitely better off than in 1914, and unskilled workers have a further advantage.

The general improvement in the economic position of the poorer of the

manual labourers can be verified not only by common observation, but also is shown by statistical inquiries. Investigations were made in five towns (Reading, Warrington, Bolton, Northampton and Stanley in County Durham) which together form a reasonable sample of English provincial industry, in 1912 to 1914 and again in 1923-4. One of the objects of these surveys was to find what proportion of the population had (apart from public or private relief) insufficient income to reach a standard of expenditure known as the "Poverty Line." This standard, amounting in 1924 to about 40s. weekly for a man, wife and three children, marks the income necessary for food, clothing, fuel, rent, and some other items in quantities sufficient, but barely sufficient, with care and economy, for physical needs, with reference to the habits and conventions of living in England in modern times. Whatever opinion is held as to the reasonableness of this standard in a single survey, it no doubt forms an adequate basis for observing changes. Now in 1913 in a considerable number of cases the wages of unskilled labour were below the sum (about 23s.) computed on the same defini-

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tion for a family including three children, while in 1924 wages under 40s. were extremely rare for a full week's work for an able-bodied man. In London also, which is the subject of a survey in 1929-30, the lowest standard wage is well above this poverty line.

In addition to the increase of wages relatively to the increased cost of living, there is a reduction in the needs themselves to be brought into account, owing to the smaller number of dependent children. The general statistics of Chapter II of the fall of the birth-rate would lead us to expect some change, but verification was wanted before it could be assumed that this fall extended to the relatively prolific poorer section of the population. In fact, the change is marked in the working-class as a whole; in the towns surveyed the proportion of families in which there were more than 3 children dependent at the date of observation was about 11 per cent. in 1913 and only 7·8 per cent. in 1924-5. But the increase of unskilled wages was, roughly speaking, sufficient for the support of one additional child.

We should therefore expect that poverty

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due to insufficient wages would have diminished in the ten years. Actually it was found that in families where a man is normally at work, the proportion in poverty in 1924 was only one-fifth of the proportion in 1913, and that the influence of increased wages was about twice as potent in causing this reduction as the influence of decreased number of children (*Has Poverty Diminished?* p. 22). "In the special week [of investigation], however, two-thirds of the improvement due to wages was lost . . . owing to unemployment."

Poverty due to illness, death of the head of the family, and other causes not directly connected with wages has not fallen in the same proportion, and the remedial measures under various insurance and pension schemes cannot be attributed except very indirectly to the war, since they were already partly organized before it.

The remaining causes of acute economic distress are prolonged unemployment, and the existence of a relatively small number of persons who would not fit into an industrial society as self-supporting members under any circumstances.

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In summary we may say that great progress has been made towards the extinction of remediable poverty, considerable inroads have been made on excessive wealth, and generally income is less unequally distributed than it was ten years ago. The changes are due to many factors, some of which are directly traceable to the war, while others, such as the fall of the birth-rate and the extension of social services, are the continuation of processes that began before the war, which, however, cannot have been without influence on the manner and date of their development.

CHAPTER VII

DISPLACEMENT OF LABOUR. PRODUCTION

[AFTER the Armistice it was recognized that it would not be a simple matter for every survivor to return to his place and resume his work after four years' absence, and an effort was made to order the demobilization so as to release first those who were most essential or who had definite work, while special unemployment allowances were made to the returned soldiers.] In many cases, of course, posts had been kept open and the substitute retired, not unwillingly, where the necessities of war work had drawn elderly men or women from their homes. As regards agricultural operations, the land called out for ordinary labour, except in the war zone where preparation had to precede restoration. But even in the industries that provide food and ordinary necessities, the work had been directed to supplying the army or the

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regulated rations of civilians, and ordinary trade methods had been suspended. There is no need, however, to describe in detail the difficulties of demobilization of the forces and their re-establishment in civilian work, for these were only temporary, except for young officers, who had had no professional or industrial experience or training. Owing to the pressing need of repairing, re-conditioning and developing machinery and plant and to the depletion of stores of all kinds, there was a demand for every kind of manual labour, and during 1919 the Trade Union returns of unemployment showed as low a percentage as in the best of pre-war years.

If in 1919 prices had not been further inflated, and if people had realized that the world was poorer than in 1914, that what was needed was careful expenditure and devotion of resources to reconstruction, that there was no room for production of luxuries or permanent demand for them, then the scanty supply of capital might not have been misdirected, re-settlement of industry would have proceeded in a sober and orderly fashion, and perhaps the crisis of 1920-1 been avoided. As it

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was, currency was freely provided, and with rising prices profits were easy. Peace was interpreted as meaning plenty, the wasteful standards of the war were maintained, and the nation set out to live beyond its income, in the hope that the bills could be paid by reparations. This situation was, perhaps, most marked in London, but a similar course was followed in other countries. Belgium was said to be an exception, but there the realities of war-destruction were understood, capital was furnished with the help of other nations, and reconstruction and re-settlement were at once seriously taken in hand.

After the collapse of prices in 1920 and the great increase in unemployment in Great Britain in 1921, people were forced to face the facts of the post-war conditions. It was indicated above (Chapter IV) that the physical destruction of capital had been to a great extent made good by this date, and that equipment on the whole was as good as before the war; but the progress that would normally have taken place in seven years was wanting. In the Final Report of the World Economic Conference of 1927 we read: "In those countries

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which participated in the war, plant in many instances was increased for military purposes beyond the scale of what is required in peace ; in other countries, new plant was installed to produce goods which could not be imported during the war ; and the experience of war deprivations has developed a desire on the part of a number of nations to make themselves self-sufficing. Moreover the general impoverishment of Europe immediately after the war lessened savings and handicapped industry by reducing at once the purchasing power of its clientele and the possibility of financial assistance from European money markets."

The following table shows the general movement in the numbers in groups of industries in England and Wales in the whole period 1911 to 1921. The first ten lines include the industries which war necessities develop ; and the rest of the first group, administration and defence (even after demobilization), share with them very nearly the whole increase in men's occupations, and show even more marked increases for women. The increase in coal-mining was partly due to the retention in the industry of those who came as

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substitutes in the war. No doubt there would have been some expansion in electrical engineering and in the manufacture of vehicles (which of course include motor-cars) apart from the war, but the actual increase is very great.

We can obtain the best view of the course of events and the trend in production and employment by examining separately some of the industries that show an unusual change.

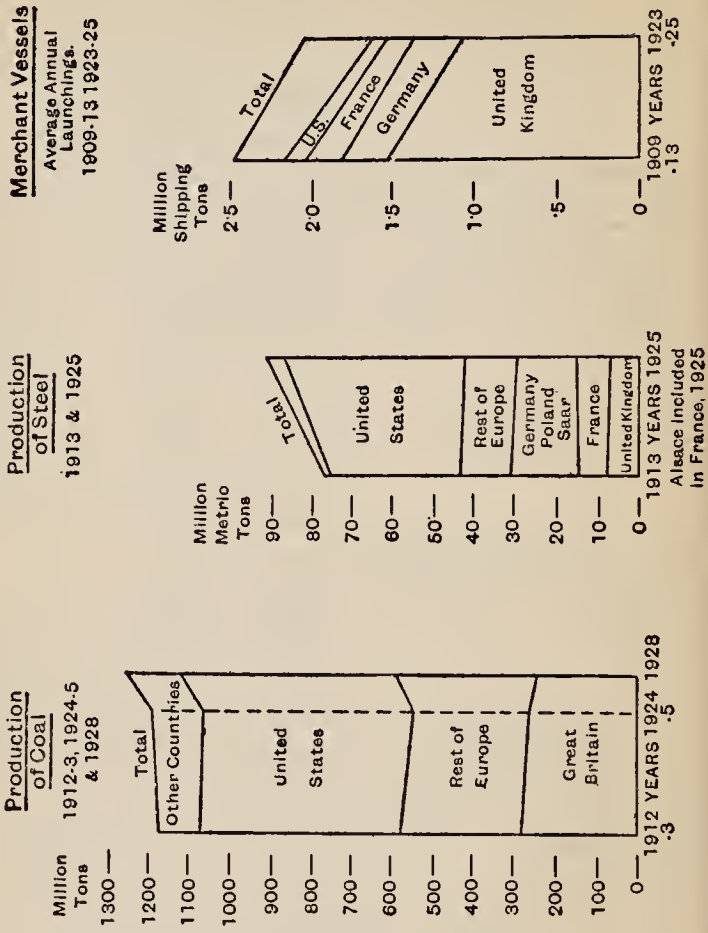
**TABLE XXVII.—DISTRIBUTION OF OCCUPATIONS
IN ENGLAND AND WALES.
Numbers occupied.¹**

Industries.	Males.		Females.	
	1911.	1921.	1911.	1921.
	000's.	000's.	000's.	000's.
Coal	968	1,126	3	6
Iron and steel	165	232	1	7
Engineering and shipbuilding	629	845	8	42
Electrical apparatus	69	127	11	39
Vehicles	187	326	11	31
Other metal industries	365	374	70	102
Chemicals and explosives	107	148	25	50
Timber.	58	76	1	4
Railways	451	531	4	17
Other transport	570	607	6	20
Defence	206	285	—	9
National Government	174	251	33	102
Local Government	255	382	43	83
	4,204	5,310	216	512
Bricks, earthenware, furniture	189	158	47	51
Building and construction	858	749	3	9
Agriculture	1,135	1,038	95	85
Textiles	517	489	656	654
Clothing	346	312	703	503
Food preparation	213	231	124	147
Drink and tobacco	113	110	26	53
Other industries	1,256	1,253	262	348
Commerce, dealing and finance	1,649	1,533	464	742
Professions	324	334	353	416
Entertainments	53	78	18	38
Personal service	597	518	1,864	1,507
Total	7,250	6,803	4,615	4,553
Grand Total	11,454	12,113	4,831	5,065

¹ That is the number of persons who state that they follow a gainful occupation, whether actually employed or not at the date of the Census.

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DIAGRAM V.—CHANGES IN PRODUCTION.



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COAL.

The production of Coal is stated to have been as follows :

TABLE XXVIII.—COAL OUTPUT.

Unit : *Million Tons of 2,204 lb.*

Yearly Average.	Great Britain.	Rest of Europe.	United States.	Other Countries.	The World.	British as Percentage of world's production.
1909-11	271	262	441	77	1,051	26
1912-13	278	300	501	96	1,175	24
1917	253	276	591	105	1,225	21
1918	231	243	615	111	1,200	19
1919-20	233	208	550	117	1,108	21
1924-5	259	284	523	128	1,194	22
1928	241	352	517	136	1,246	19

Here we see that the world's production and consumption of coal was less in the two years after the war than in the two years before it, and that Great Britain's production was a reduced proportion of the total. The impoverishment of Europe hindered the demand for coal in 1919-20 and the destruction of mines in the war checked the supply. But petrol has become a powerful competitive power, and

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economy of use in coal itself has also had influence, so that after general productive power was restored the consumption in 1924-5 was little greater than 12 years before, in spite of the increase in the world's population. The period 1925-8 shows some recovery.

Though most coal is consumed in the country where it is produced, sufficient is exported to make the prices subject to world-competition. Great Britain has had the lion's share in export by sea, and owing to the difficulties, discussed in the next Chapter, that affected all her exports, has lost much of this trade. In 1919-20 the amount exported was less than half that before the war; by 1928 it had recovered a little and reached about two-thirds of that amount. At the same time the quantity needed for production of pig-iron has fallen off, and, owing to the use of oil, there has also been a loss of coal for ships' bunkers. These are the circumstances which have led to the enormous and continued unemployment in the coal fields which has only been relieved when some other source of supply has temporarily failed. Such years and the years of stoppage in Great Britain are omitted in the

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Table above. The reduction of the number of miners, beyond the natural loss by old age or death, has proceeded much too slowly to shake out the large excess at the end of the war, and in many years great unemployment resulted, specially acute in the districts depending on use for export, steel-production or bunkers for steamships.

Iron and Steel

The world's capacity for the production of iron and steel increased enormously during the war. After the Armistice there was still a great need for use in reconstruction and development of buildings, bridges, plant and machinery, but not always enough credit or capital for its purchase. At the same time there was a considerable stock of steel in the hands of governments, and an enormous amount of scrap steel and iron that gradually came on the market. Further, the technique of pig-iron and of steel production had improved and it was only the larger works that were adequately equipped for modern methods.

Under these circumstances there were

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great variations in production and price in the years following the Armistice, which it is not necessary to follow. It is sufficient to review the position in 1924 as compared with pre-war years, as in the following Table (compiled from the Memorandum on Iron and Steel presented to the Geneva Economic Conference).

It is clear that there had been a rapid development in the years immediately preceding the war since the world's total production in 1913 was 17 per cent. greater than in the average of the five years 1909-13. In 1924 the aggregate output of steel was only 3 per cent. greater than in 1913, but a great increase in the United States, which was entering on a new phase of prosperity, and a recovery in Germany resulted in a much higher total in 1925 and in fact in subsequent years. In this case it is especially difficult to distinguish between the immediate effects of the war and the general movement due to economic development.

In 1924 the share of the United Kingdom in the total was rather greater than in 1913, while the deficit in Germany and Russia was compensated by American output. Unemployment in Great Britain in the

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steel industry was due to the number of men drawn in during the war, not to an actual reduction of output.

TABLE XXIX A.—PRODUCTION OF PIG-IRON.

Unit : 1,000 metric tons.¹

	Average 1909-13.	1913.	1924.	1925.
United Kingdom	9,770	10,425	7,424	6,337
France . . .	4,446	8,948	7,693	8,471
Luxemburg . .	2,104	2,677	2,157	2,346
Belgium . . .	2,060	2,485	2,844	2,543
Saar	1,244	1,371	1,389	1,453
Germany . . .	12,733	10,907	7,812	10,177
Poland	— ²	1,031	334	315
Russia	3,668	4,220	757	1,551
Other European Countries . .	3,174	3,598	2,838	3,315
Total Europe .	39,199	45,662	33,248	36,508
United States .	27,929	31,462	31,908	37,288
Other countries	1,184	1,685	3,181	3,140
Total . . .	68,312	78,809	68,337	76,936

¹ A metric ton is 2,204 lb., one-sixtieth less than the English ton of 2,240 lb.

² Included in Germany and Russia.

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TABLE XXIX B.—PRODUCTION OF STEEL.

Unit : 1,000 metric tons.

	Average 1909-13.	1913.	1924.	1925.
United Kingdom	6,742	7,787	8,332	7,517
France . . .	3,883	6,973	6,900	7,415
Luxemburg . .	854	1,336	1,886	2,084
Belgium . . .	2,138	2,467	2,875	2,549
Saar	— ¹	2,080	1,447	1,575
Germany . . .	14,547	12,236	9,835	12,194
Poland	— ¹	1,661	682	782
Russia	3,964	4,212	1,139	2,149
Other European Countries . .	4,273	4,609	4,532	5,352
Total Europe .	36,401	43,361	37,628	41,617
United States .	27,692	31,802	38,539	46,120
Other countries	1,135	1,420	2,601	3,035
Total . . .	65,228	76,583	78,768	90,772

The position of pig-iron is different. Before the war the number of tons of pig-iron produced was 3 per cent. greater than that of steel, while in 1924 it was 13 per cent. less. This change is said to be due

¹ Included in Germany.

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to the replacement for many purposes of wrought and cast iron by steel, since a ton of steel replaces more than a ton of iron in use. It is also attributed in part to the availability of scrap steel for remelting in place of iron, but the war debris must have been practically exhausted before 1924. The share of Great Britain in the world's production of pig-iron had fallen between 1913 and 1924 and has fallen again since 1924, while that of the United States has increased. The production of pig-iron is dominated by the demand for steel, but the locality in which it is produced is greatly influenced by the price of the coal or coke used in blast-furnaces.

As regards the United Kingdom pig-iron and steel are imported and exported as well as produced. Comparative figures for 1913, 1923, 1924 and 1925 are as follows :—

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TABLE XXX.—PRODUCTION AND CONSUMPTION
OF PIG-IRON. UNITED KINGDOM.

Unit : 1,000 English tons.

	Pro- duction.	Imports.	Exports.	Home Consump- tion.	Percentage of Imports to Home Consump- tion.
1913	10,260	+ 184	— 944	= 9,500	1·9
1923	7,438	+ 101	— 725	= 6,814	1·4
1924	7,319	+ 289	— 486	= 7,122	4·1
1925	6,236	+ 264	— 467	= 6,033	4·4

The falling off of Home Consumption accounts for much more of the depression

TABLE XXXI.—PRODUCTION AND CONSUMPTION
OF STEEL. UNITED KINGDOM.

Unit : 1,000 English tons.

	Crude Steel.				Exports of Manu- factured Iron and Steel.	
	Pro- duc- tion.	Imports.	Home Consump- tion.	Percent- age of Imports to Home Consump- tion.	Semi- Finished.	Finished.
1913	7,664	+ 860	= 8,524	10	836	3,004
1923	8,490	+ 560	= 9,050	6	1,079	2,305
1924	8,216	+ 1,082	= 9,298	12	941	2,293
1925	7,398	+ 1,158	= 8,556	13·5	752	2,399

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than does the reduction of exports or the increase of imports.

Both with iron and steel the more favourable trade in 1923 was due to the cessation of work in the Ruhr district owing to the French occupation.

It is seen that the production and consumption of steel tend to equal or exceed the pre-war levels, the latter being greater owing to the increase of imports, and that there has been a considerable decline of exports. It is stated that the export trade yields little profit.

Ship-building.

The destruction of mercantile ships by enemy action during the war was enormous and amounted to more than a quarter of the world's tonnage afloat in 1913. To replace these losses and provide for additional ships of all kinds in the navy, immense extensions of shipyard capacity took place in Great Britain, and in the United States a great programme of ship-building was hastily improvised. The effort was in fact too successful, and with the completion of ships begun before the Armistice, not only were the losses replaced but the world's mercantile tonnage is

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estimated to have been nearly a third greater in 1919 than in 1913. A considerable part of the increase, however, was due to ships built in the United States and never used, owing to their unsuitability for earning sufficient freight to pay their running expenses, and a certain proportion of ships in other countries was too old to be effective, since all possible tonnage had been used during the war, including ships that in other circumstances would have been broken up as obsolete.

In 1919 and 1920 a considerable amount of shipbuilding took place, in spite of the surplus, in response to a temporary demand for transport and in consequence of the unfounded belief in a period of booming trade. The reaction that followed was increased by activity in German shipyards, where efforts were made to replace the ships that Germany had yielded as the first part of reparations at the end of the war. Depression was the greater because of the partial cessation of the demand for war-ships, which before and during the war had employed private as well as government yards.

As will be seen in the next Chapter the international trade of the world in 1924

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was definitely less than in 1913, and so far from new capacity for shipbuilding being needed, there has been a surplus of existing ships, which needs a few years for reduction by the usual process of breaking-up obsolete ships and by losses at sea. Such building as is required is due to the demand for larger ships, both passenger and cargo, which are more economical in running than smaller, to the replacement of steam by oil-driven ships, and to the need of oil-tankers for the greatly increased transport of oil. Unemployment in the shipbuilding industry has been by no means confined to the United Kingdom, but is world-wide ; but of course a considerable amount of repair-work is always needed.

The statistical aspect of the subject is as follows. During the period 1900 to 1914 annual shipbuilding amounted to about $6\frac{1}{2}$ per cent. of the existing world's mercantile fleet, of which $2\frac{1}{2}$ per cent. was necessary to replace losses and breaking-up of obsolete ships, and the remaining 4 per cent. was normal growth. The rate of growth was more rapid immediately before the war. In 1913 the world's mercantile fleet (including all ships of over 100 tons burden) amounted to about 47 million tons,

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the annual amount built was $3\frac{1}{2}$ million tons, and the yards had capacity for building 3 to 4 million tons annually, in addition to warships equivalent to $1\frac{1}{2}$ million tons. During the war 13 million tons were lost, but from 1914 to 1919 about 28 million tons were built, and the building capacity was perhaps increased to 10 million tons annually, very little of which was needed for warships.

TABLE XXXII.

The World's Mercantile Navy.

Million Tons.									
Year.					Year.				
1913	.	.	.	47	1923	.	.	.	65
1914	.	.	.	49	1924	.	.	.	64
1920	.	.	.	57	1925	.	.	.	65
1921	.	.	.	62	1926	.	.	.	65
1922	.	.	.	64					

Thus from 1921 to 1926 little shipbuilding was done except in replacement of ships withdrawn and broken up (a process which proceeded more rapidly than before the war) or lost at sea.

In 1922 the tonnage of shipping laid up, but in general available if there was any demand for it, was nearly 11 million tons, of which 4 million was in the United States. In subsequent years the amount must be

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of similar dimensions since it is estimated that only 55 million tons is needed for the trade of the world, while 65 million exist.

So far the figures are for all the ship-owning or ship-building countries of the world all together. The shares of the countries principally concerned are as follows :

TABLE XXXIII.—MERCANTILE TONNAGE ON
LLOYD'S REGISTER (STEAM AND SAILING).

(Vessels of 100 tons and over.)

	1914, June.		1924, June.		1925, June.	
	Million Tons.	Percent- age of Total.	Million Tons.	Percent- age of Total.	Million Tons.	Percent- age of Total.
United Kingdom	19·3	39	19·1	30	19·4	30
British Dominions . . .	1·8	4	2·8	4	2·8	4
United States . . .	5·4	11	16·0	25	15·4	24
German . . .	5·5	11	3·0	5	3·1	5
French . . .	2·3	5	3·5	5½	3·5	5½
Italian and Austria . . .	2·7	5	2·8	4	3·0	4½
Scandinavia . . .	4·4	9	4·8	7½	5·0	8
Holland . . .	1·5	3	2·6	4	2·6	4
Japan . . .	1·7	3	3·8	6	3·9	6
Others . . .	4·5	10	5·6	9	5·9	9
	49·1	100	64·0	100	64·6	100

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The main increase is in the United States where a considerable part of the shipping is ineffective, and in fact its total was reduced to 12·4 million in 1926. But there is an increase in all countries except the United Kingdom where the tonnage is stationary and in Germany where the loss of her ships in 1919 has not been made good.

TABLE XXXIV.—SHIPBUILDING. LAUNCHINGS OF
MERCHANT VESSELS OVER 100 TONS.

Country.	1909-13. Average.		1913.	1921.	1922.	1923-5. Average	Percent- age of Total
	Tons. 000's.	Percent- age of Total.	Tons. 000's.	Tons. 000's.	Tons. 000's.	Tons. 000's.	
United Kingdom	1,542	62	1,932	1,538	1,031	1,057	52½
Germany	273	11	465	509	526	309	15½
United States	235	9½	276	1,006	119	147	7½
France .	107	4	176	211	184	84	4
Others .	333	13½	484	1,078	607	431	21½
Total .	2,490	100	3,333	4,342	2,467	2,028	100

Here the United Kingdom and the United States have lost absolutely and relatively; but the remaining countries also built less in 1923-5 than in 1913.

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When the surplus shipping has become obsolete, the total building should reach a higher annual figure than in 1913. Meanwhile it is computed that cargo shipping freights (i.e. payments for transport by sea) were only 13 per cent. higher in 1924 than in 1913, in spite of the much greater rise in wages and prices generally, and they have only oscillated about this level up to 1929.

Cotton and Wool.

The difficulties of the Lancashire cotton industry are only indirectly attributable to the war, and hence the involved history of the past ten years is not within our present scope. But it should be noticed that the dislocation of trade and the obstacles to shipping during the war were specially injurious to the cotton trade—immediately because it depends on shipping both for its material and for access to its markets, and more permanently because a great impetus was given to the cotton manufacture of eastern countries, which were already strong competitors in the production of the coarser fabrics.

The world's consumption of raw cotton in manufacture was very nearly the same

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in 1924-5 as in 1912-13, but Great Britain's share of this had fallen from 19 per cent. to 14 per cent., while that of India, Japan, the United States and probably China had risen. Some countries developed manufacture for their own use during the war, and also had a surplus for export.

TABLE XXXV.—COTTON GOODS.

Relative values exported by seven countries, as yearly averages. Percentages of total in each period.

	Yarns.		Piece Goods.	
	1910-13.	1924-5.	1910-13.	1924-5.
United Kingdom .	49.3	54.8	75.9	63.1
France	2.3	9.3	6.3	9.1
Germany	5.2	2.3	6.9	2.9
Belgium	1.7	3.5	2.6	2.6
Italy	4.4	5.9	5.4	7.5
India	19.6	4.6	1.2	2.0
Japan	17.5	19.6	1.7	12.8
	100.0	100.0	100.0	100.0

With regard to these figures it is to be remarked that the total amount of yarn exported diminished in this period, principally

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owing to development of weaving in India, so that the actual quantity for the United Kingdom fell 13 per cent., though relatively to the aggregate, it rose. Both in spinning and weaving France gained at the expense of Germany owing to the transfer of the important cotton factories of Alsace.

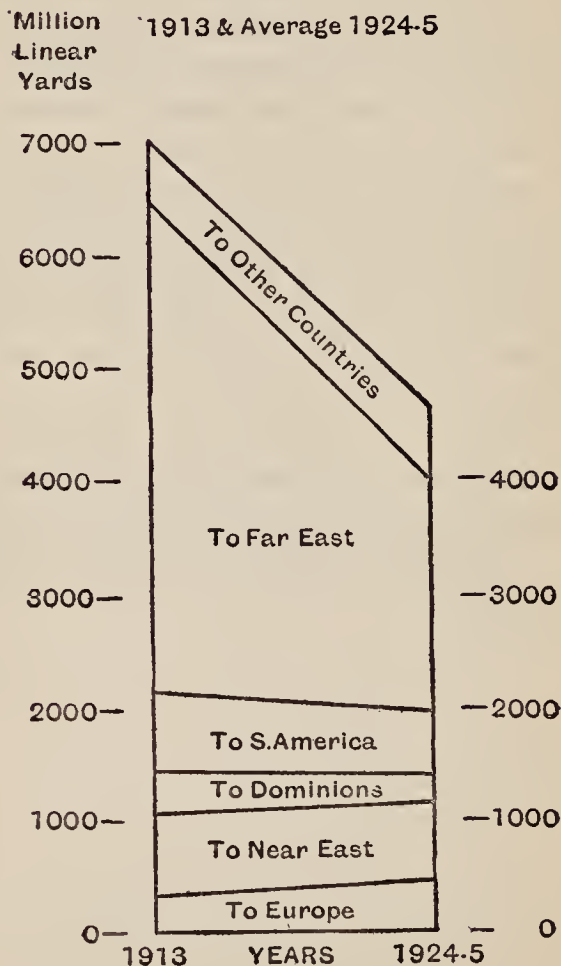
Though it is not practicable to measure accurately the aggregate quantity of piece-goods exported owing to the number of different kinds, it is certain that there was a considerable fall in these thirteen years, and here the exports from the United Kingdom diminished relatively as well as absolutely.

An idea of the change can be obtained from the following table (compiled from the *Journal of the Royal Statistical Society*, 1928, p. 157), and the diagram which illustrates it.

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DIAGRAM VI.

Exports of Cotton Piece Goods from the United Kingdom.



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TABLE XXXVI.—EXPORTS OF COTTON PIECE
GOODS FROM THE UNITED KINGDOM.

	1913.	1920-3. Average.	1924-5. Average.
Million linear yards:	7,075	4,072	4,611

Percentages to various regions :

To Far East . . .	62	46·3	44·6
„ Near East . . .	10	15·0	13·5
„ South America . . .	9½	10·0	11·6
„ Self-governing Do- minions . . .	5½	7·6	6·7
„ Europe . . .	5	8·8	10·0
„ Africa . . .	5	6·1	7·0
„ United States . . .	½	2·5	2·6
„ Others . . .	2½	3·7	4·0
	<hr/>	<hr/>	<hr/>
	100	100	100
	<hr/>	<hr/>	<hr/>

The relative loss is entirely to the Far East; but the only actual increases are to Europe and the United States. This decline falls on the cheaper class of goods, using American cotton, both for cloth and yarn. The fine section of the industry, based chiefly on Egyptian cotton, has done considerably better.

The cotton industry was seriously disorganized by the very high prices ruling in 1919-20, which led to the changing of ownership of mills at inflated values with

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consequent financial difficulties when prices fell. In the home market it has felt the competition of artificial silk.

The woollen and worsted industries were subject in the years following the war to great uncertainty and variability of price, partly due to the large stock of wool held in Australia owing to the impossibility of exporting during the shortage of ships. It has been faced by the general difficulties of exportation due to fluctuating exchanges and tariffs, and handicapped by the changes in fashion in women's dress. But there has been no essential change in the general position of the industry traceable to the war, and in previous decades it has met successfully difficulties arising from change of supply, price, fashion and tariffs.

As regards the other industries, in which the number occupied in the decade 1911 to 1921 diminished, the fall in *clothing* is attributed to simplification of women's dress and the increase in the practice of making and fitting at home, while men probably spend less on the more expensive type of clothes than before. The great advance in prices of clothes has accentuated this tendency. The position of

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agriculture cannot be treated briefly : the downward tendency in numbers has been evident for several decades. For *building* and *brick-making* the demand nearly ceased in the war, the labourers joined the Army or munition works and there was a check (already noticeable before the War) in the number of apprentices to the skilled trades ; so that, as is well known, there was a dearth of builders when the demand for houses became acute.

Meanwhile of the increasing industries not already named many branches of the *engineering* industry were, like ship-building, over-developed during the war, while others, together with all electrical machinery and apparatus, motor vehicles and chemicals, are precisely those industries which were ready for expansion with the progress of discovery and invention in any case.

Of the important occupations there remain *railways*, which after demobilization were over-staffed, *other transport* in which an era of development was commencing, and *Government* which had drawn in great numbers of persons for war-time administration.

In 1921 the supply of labour was in

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TABLE XXXVII.—NUMBER OF INSURED PERSONS
IN 1923 AND 1929.

Per thousand of all industrial workers insured.

	1923.	1929.	Percentage of Insured Un- employed in June, 1929.
<i>Diminishing proportions :</i>			
Coal and coke	118	97	19
Iron and steel	25	21	17
Shipbuilding and marine engineering	31	23	19
General engineering	62	53	9
Cotton, wool, linen	86	78	13
Railways	64	57	10
	<hr/>	<hr/>	<hr/>
	386	329	13
<i>Increasing proportions :</i>			
Bricks, stone, cement	13	17	8
Constructional engineering, heating, etc.	2	3	9
Furniture, saw-mills	14	16	7
Building and public works	79	89	10
Motor-cars, etc.	18	22	6
Rubber	5	6	7
Electrical apparatus, engineering, etc.	14	17	5
Silk and artificial silk	3	7	8
Hosiery	9	10	6
Printing	21	23	4
Road transport	24	30	7
Distributive trades	118	150	5½
	<hr/>	<hr/>	<hr/>
	320	390	7
<i>Nearly stationary proportions :</i>			
Other industries	294	281	10
	<hr/>	<hr/>	<hr/>
Total	<u>1,000</u>	<u>1,000</u>	<u>9½</u>

The total excludes persons in commerce, government and hotel service, etc. It excludes permanent railway-men, who are insured in a special scheme.

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many respects wrongly directed and during subsequent years there has been a painful process of readjustment, which can be traced by means of the statistics of persons insured against unemployment.

To judge from the statistics of unemployment given in the last column the distribution of labour among industries had not reached equilibrium in 1929. Though the numbers in the first six industrial groups in the table had diminished considerably, the proportion unemployed was greater than in expanding trades. There is no evidence of the possibility of transfer from one group to another, since there are unemployed in all groups ; but there can be little doubt that movement is diminished by the increased rigidity of wages, arising in the circumstances described in Chapter VI, which has diminished the freedom and power of workmen to offer their labour for wages which the labour-market can bear.

CHAPTER VIII

FOREIGN TRADE. UNEMPLOYMENT

INTERNATIONAL trade was completely unsettled during the war by the closing of frontiers, the diversion of the usual courses of what trade remained, the change in the character of goods required and by the shortage and destruction of shipping. As already described, trade relations, which depend on an intimate knowledge of the needs and credit of customers and on connections built up gradually, were disorganized, and countries had in the four years of war developed their own productions or turned to regions unaffected by hostilities. Also, during the four years of war the process of gradually adapting industries to increased foreign competition and other changes was suspended, so that far-reaching re-organization was necessary in conditions that were imperfectly understood.

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Further, the currencies of all European countries had been re-based or thrown into confusion, and the mutual rates of exchange were not easily ascertained and for many years were subject to rapid fluctuation.

Under these conditions trade in 1919, and to a diminishing extent in subsequent years, was carried on with great difficulty, even when there was a clear demand for goods and a power of paying for them. With the impoverishment of continental Europe a great part of exports were in fact financed by loans, and this led to yet further difficulties.

Between the United Kingdom, the British Dominions, Scandinavia, Holland, the United States, and South America, however, these disturbances were much less than with the parts of Europe most affected by the war.

To the impoverishment of nations, and the disturbed currencies and broken relations which were inevitable consequences of the war, there were added more artificial hindrances. In the re-drawing of the map of Europe, many new frontiers were established, as the old empires of Austria-Hungary and Russia were divided, and

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Poland reconstituted. Each country under the influence of a strong spirit of nationalism set out to develop its own manufactures and resources, and to retain any industries which had been fostered by war conditions, with the result that trade was subject to additional tariffs and to the hindrance and expense of satisfying innumerable new customs regulations which were frequently changed at short notice. This confusion has only very gradually been resolved, and at the time of the Geneva Economic Conference in 1927 there were still many restrictions and artificial subsidies and hindrances applying to particular classes of goods. The strongly protective policy of many nations remains, but in fact it does not appear to affect the total of trade much more heavily than the pre-war tariffs¹; it is, rather, limited to a small number of acutely self-conscious countries and to particular goods which they hope to manufacture. In a few cases the impetus given by the war and by protection has developed successful industries now, on a sufficient scale to be independent of protection, which, however, is not discontinued.

¹ See note opposite page.

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The value (in gold) of the aggregate foreign trade, imports and exports, of the principal trading countries is estimated at £8,400 million in 1913 and £11,000 million in 1923, an increase of 30 per cent. But at the end of these ten years gold prices were, the world over, about 60 per cent.

¹ At the Geneva Conference an attempt was made to measure the actual change of tariffs, by a method too technical for description here.

INDICATIONS OF THE PERCENTAGE OF TARIFFS TO THE VOLUME OF TRADE.

MANUFACTURED GOODS.

	1913.	1925.
Austria	18	16
Czechoslovakia	18	29
Hungary	18	27
Italy	18	22
Germany	13	20
France	20	21
United Kingdom	0	5
United States	44 *	37
Belgium	9	15
Holland	4	6
Denmark	14	10
Sweden	20	16
Switzerland	9	14
Poland	?	32
Jugo-Slavia	?	23

* In 1914 only 25.

higher than at the beginning, and consequently the 1923 trade was worth only £6,900 millions at 1913 prices, a fall in quantity of nearly one part in five, and this in spite of the fact that some trade was now international that had formerly been internal. Part of this deficit of goods has no doubt been replaced by increased home production (e.g. of textile manufactures) in particular countries; part remains as a definite lack of consumption. Large as the fall appears, it in fact amounts to only a small proportion of the aggregate world consumption, since only in a few highly industrialized countries do imports form more than a small fraction of national income or consumption.

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The United Kingdom, however, being at once much the largest trading country in the world and that which depends most on imports, is naturally very seriously affected by this change.

The dominant figures, compiled from the "Balfour" Report of the Committee on Industry and Trade (Overseas Markets) are as follows :

TABLE XXXVIII.

THE AGGREGATE FOREIGN TRADE OF THE PRINCIPAL TRADING COUNTRIES.

	A. Exports of Home Produce.			
	1913.		1923.	
	£ Million.	Percent- age of Total.	£ Million.	Percent- age of Total.
United Kingdom .	525	13·0	744	14·0
British Dominions, etc.	495	12·3	853	16·1
United States . .	503	12·5	894	16·9
France	273	6·8	402	7·6
Other countries .	2,239	55·4	2,406	45·4
	4,035	100·0	5,299	100·0

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TABLE XXXVIII—*continued.*

	B. Imports for Consumption.			
	1913.		1923.	
	£ Million.	Percent- age of Total.	£ Million.	Percent- age of Total.
United Kingdom .	659	15·1	959	16·8
British Dominions, etc.	518	11·9	788	13·9
United States . .	361	8·3	829	14·5
France	334	7·6	431	7·6
Other countries .	2,493	57·1	2,693	47·2
	4,365	100·0	5,700	100·0

To compare 1923 values with 1913 divide by about 1·60.

The aggregate value of goods imported is greater than that of the same goods exported by about 9 per cent. owing to the cost of transport.

France, of course, includes the manufacturing district of Alsace-Lorraine in 1923.

It thus appears that the United Kingdom, and still more the rest of the British Empire, has secured an increasing proportion of the diminished market for exports. As regards her imports, the price correction

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is less than the general 60 per cent. for all goods, since they consist largely of food and materials of which the rise in price was smaller, and in fact the quantity of her imports was about the same in 1923 as in 1913. Of exports, chiefly manufactured goods, of which the price had risen more, the actual quantity was one quarter to one fifth less. The increased share of the United States is very noticeable.

That the United Kingdom has not done worse than other countries affords little consolation in view of the actual fall, and we have to examine more in detail the geographical aspect of the reduction.

The general change in distribution from 1913 to 1923 is not very great, but there are important details. The fallen proportion to Germany, Austria and Russia is compensated by an increase to European allies and neutral countries. The loss to India is balanced by a gain to Australasia, and the United States' increase more than makes up the decrease to other parts of America. It is remarkable that trade has settled down so nearly on its old lines. In subsequent years the proportion to Germany and Austria increased, and on the

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TABLE XXXIX.—PROPORTIONATE DISTRIBUTION
OF EXPORTS OF BRITISH PRODUCE.

	1913.	1923.
Scandinavia and Holland	6.8	8.7
Switzerland, Spain, Portugal	2.9	3.0
France, Belgium, Italy	10.8	12.6
Germany, Austria	8.6	6.0
Russian Countries	3.4	1.6
Rest of Europe	1.0	1.3
<hr/>		<hr/>
Europe	33.5	33.2
British India	13.4	11.6
Canada	4.5	3.7
Australia and New Zealand	8.6	10.6
Rest of Empire	10.7	11.2
<hr/>		<hr/>
British Countries	37.2	37.1
United States	5.6	8.0
Central and South America	11.3	9.8
China, Japan and Dutch East Indies	7.0	7.2
Other Countries	5.4	4.7
<hr/>		<hr/>
	100.0	100.0
	<hr/>	<hr/>

whole there has been a further tendency to the pre-war distribution.

To determine whether the exports of other trading countries have made more progress or suffered a less set-back than the United Kingdom would necessitate too long an investigation, owing to the diffi-

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culty of estimating changes of price; but, still following the Balfour Committee's figures, we can examine the imports of particular countries to ascertain whether a greater or less proportion of the aggregate comes from the United Kingdom.

TABLE XL.—PROPORTION OF THE IMPORTS INTO CERTAIN GROUPS OF COUNTRIES WHICH COME FROM THE UNITED KINGDOM.

Percentage of Imports in each Group.

	1913.	1923
Europe :		
Neutral countries . . .	12·7	16·2
Allied countries . . .	12·9	15·4
Enemy countries . . .	9·0	9·0
India	65·4	59·0
Rest of British Empire . . .	34·3	32·1
United States	16·3	10·7
China, Japan, Dutch East Indies .	15·9	12·9
Argentina, Brazil, Chile . . .	27·9	19·9

To elucidate this table, by an example : in 1913 of the imports into India 65·4 per cent. (by value) came from the United Kingdom, and therefore 34·6 per cent. from other countries, while in 1923 the proportion from the United Kingdom was only 59·0 per cent.

The United Kingdom had in 1923 a

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relatively larger share of the imports into neutral and allied Europe than in 1913, a smaller share in the imports into the United States and S. American countries, and even a smaller share of the imports into the British Dominions, etc., among which Canada was not so good a customer as formerly.

Thus generally the world outside Europe had tended to find substitutes for British Exports in goods from other countries between 1913 and 1923, while many European customers have through improvement or home production reduced their foreign purchases.

The actual falling off of British Exports is not only widespread geographically, but also it extends over all the principal manufactures for export. When change of price is eliminated it is found (as said above) that the quantity of goods exported was in 1923-4 one-quarter to one-fifth less than in 1913. In addition to the actual loss of labour in production of these goods, there is the loss of transport by sea and land and of all the incidental business arising from foreign trade. It has been estimated that before the war nearly one quarter of the national income depended on production

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for export, while in 1924 the proportion was only one-fifth. If the former proportion were restored, there would be work for an additional number of wage-earners estimated at 700,000 to 800,000.

It is in the failure to maintain exports that the principal cause of acute unemployment is to be found. So far as can be judged, production for the home market was in the aggregate nearly the same in 1923 as 1913; the number of persons at work was also nearly the same, and hence the output per head had changed little in spite of increased working hours. The slight average increase in real earnings per head was possible because of the redistribution of income as described in Chapter VI. In the principal trades working for export, except textiles, wages had risen less than the average, and the difficulties of export have not been due to unreasonably high wages of producers, though high wages of those engaged in transport and distribution have had some influence. But some of our competitors for neutral markets pay lower wages, as they did before the war, and during the period of inflated currencies (which was not over by 1923) had a special advantage,

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owing to the cheapness of home-produced goods on which their labourers depended.

The second main factor in unemployment has been the faulty localization of labour, both in districts and in occupations, discussed above (pp. 192 seq.). In most regions this is remedied, more rapidly than would be anticipated by those who have not studied the statistics, by a change in the direction of the new stream of labour as each year school-children grow into earners; and it is helped by the transference of unspecialized, unskilled and semi-skilled persons, which is on the whole easier now than before the war, except for the hindrance caused by the want of houses and rent-restriction, for persons are unwilling to leave houses where the rent is controlled and compete for accommodation at higher rents. But in many coal districts there is little alternative employment, and it is more difficult to move coal-miners, from one district to another (even if work were available) than most groups of men, since their skill, training, habits and inclinations differ from those of people in less self-contained communities.

The third factor making for unemployment, more in Germany even than in the

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United Kingdom, has been the scarcity and dearness of capital, a direct effect of the war. The fourth factor has been the forcing up and maintaining of wages, at a level not warranted by the economic situation, which has been rendered more possible by the development of the unemployment insurance scheme.

Whatever the relative importance to be attached to these different factors, the result has been that in the United Kingdom a million or more persons have been out of work in nearly every month since the beginning of 1921. In Germany the position in some years has been worse. That other countries have not suffered in the same way may be attributed to less dependence on foreign trade, in France to the absence of increase of the working population, to lower wages, or to loans from abroad or the subtle reactions of inflation of currency which postpone the date of depression.

Though the main facts and figures of unemployment are well known, it is necessary for completeness to make some analysis of its incidence and movement. It should be emphasized at the start that there is not a standing army of a million

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unemployed, but that in most districts and trades there is a continual passing in and out of work. In some industries the average out-of-work periods are considerable; but it is only in the coal industry, and perhaps in some others of minor importance, that large numbers of men have been unable to get work for a long succession of months. The total of the unemployed, however, includes a certain number of aged or inferior workmen, who would only be employed in times of good trade, and in the long-drawn-out depression have obtained little work. Among women unemployment has not generally been severe, except when the cotton or the woollen industries have been exceptionally depressed.

Before the war, and afterwards till the extension of the Unemployment Insurance Scheme, the only general information about unemployment was from certain important Trade Unions who made returns monthly of their membership and the number out of work. The yearly averages of these returns from 1902 to 1923 are shown in diagram. After 1925 these returns were no longer available, and they were incomplete in 1924 and 1925. From 1923

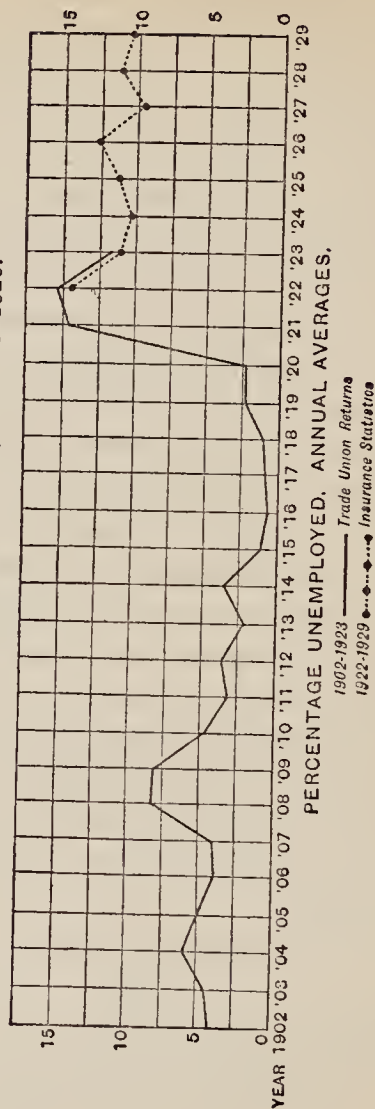
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onwards the statistics arising from the administration of Unemployment Insurance have been on a sufficiently settled basis to make the resulting *percentages* reasonably comparable from month to month, though administrative changes have affected the *total* numbers included.¹ In the two years, 1922 and 1923, for which both returns existed, the general averages are nearly the same, and we can apparently pass from one record to another without serious loss of continuity. But it is believed that the Insurance scheme includes some classes of men, who would not have been included as unemployed on the Trades Union method, especially casual and specially irregular workers, whose rate of unemployment is greater than that of which the Trade Union returns are typical ; so that perhaps 5 per cent. on the new measurement is equivalent to the 4 per cent. which is about the average of the pre-war figures.

Diagram VII shows that from 1902 to

¹ In August 1924 a reduction of the "waiting" period added some 70,000 to the total count of unemployed. In January, 1928, the transfer of persons over 65 years to the category of Old Age Pensioners reduced the number by about 25,000.

DIAGRAM VII.—UNEMPLOYMENT, 1902 TO 1929.



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1913 the annual average fluctuated between 7·8 per cent. (in 1908) and 2·1 per cent. (in 1913). During the war and up to September 1920 the figures were extremely low. With a stoppage in the coal industry in October 1920 the numbers rose, and with the general collapse of credit at the beginning of 1921 (see Chapter III), unemployment increased very rapidly, to 10·2 per cent. in March 1921. During the next five months it was far higher than had ever before been recorded during a further coal-stoppage. Then a gradual fall took place to a temporary minimum (9·3 per cent.) in June 1924. The average for the year 1924, however, was higher than in the bad year 1908. A new increase, which many people connect with the resumption of the gold standard in April 1925 and the slight consequent deflation, took place in 1925, and this was followed by a substantial increment in May 1926 in consequence of the sequel of the general strike and the prolonged coal dispute. 1927 was the best year of recent times, but even if the unemployment in coal mines is eliminated, was worse than 1908. There was some deterioration in 1928 and 1929. In fact from 1923 to 1929 the general

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average unemployment has been about 10 per cent. or about 1,100,000 in insured trades, together with some in agriculture and among other persons not insurable.

The actual number of *employed* persons, however, is somewhat greater than in 1913. Industry has been able to absorb part of the increase of the working population, but not all, and the deficit is even greater than that attributable to the loss of part of the export trade.

The variation month by month since 1919 or 1920 is shown in Table XLI and Diagram VIII."

In Table XLII an attempt is made to analyse unemployment by industries. The month of April is selected as being nearly the best in the year, and not affected by any major industrial dispute.

First are given those which are known to have been overstaffed after the war, or which were specially affected by reduction of exports. These are nearly the same industries as those named above (p. 194) as having reduced their total numbers. Till May 1926 coal was helped either by the destruction of mines in the war zone, or by the cessation of the output in the Ruhr district during the French occupation

TABLE XLI.—UNEMPLOYMENT. MONTHLY STATISTICS.

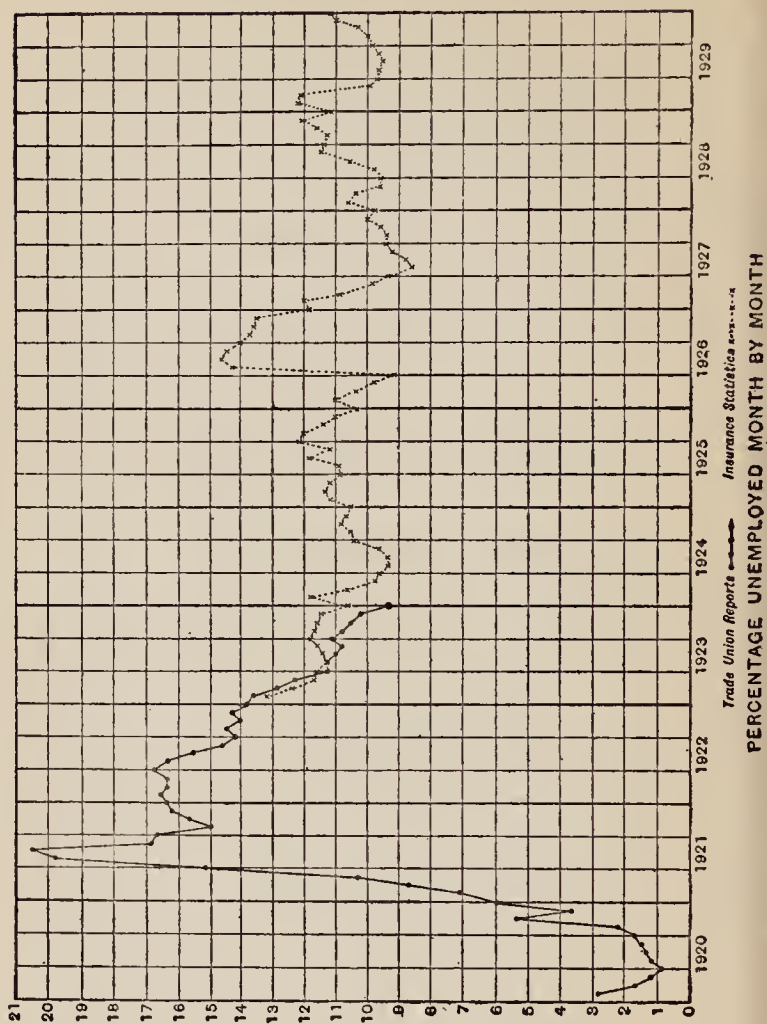
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	Percentage of Members of certain Trade Unions.						Percentage of Insured Persons.					
	1919.	1920.	1921.	1922.	1923.	1923.	1924.	1925.	1926.	1927.	1928.	1929.
January . .	2.4	2.9	7.1	16.5	13.6	13.3	11.9	11.2	11.0	12.0	10.7	12.2
February . .	2.8	1.6	8.7	16.2	12.9	12.4	10.6	11.3	10.4	10.9	10.4	12.1
March . .	2.8	1.1	10.2	16.2	12.2	11.7	9.8	11.1	9.8	9.8	9.5	10.0
April . .	2.7	0.9	15.1 ¹	16.8	11.2	11.5	9.7	10.9	9.1	9.4	9.5	9.8
May . .	2.1	1.1	19.9 ¹	16.2	11.2	11.2	9.4	10.9	14.3 ¹	8.7	9.8	9.7
June . .	1.7	1.2	20.6 ¹	15.5	11.0	11.3	9.3	11.9	14.6 ¹	8.8	10.7	9.6
July . .	2.0	1.4	16.9 ¹	14.5	10.9	11.6	9.8	11.2	14.4 ¹	9.2	11.6	9.7
August . .	2.2	1.6	16.6 ¹	14.1	11.1	11.8	10.5	12.1	14.0 ¹	9.3	11.5	9.9
September . .	1.6	2.2	15.0	14.4	10.9	11.7	10.6	12.0	13.7 ¹	9.3	11.3	10.0
October . .	2.6	5.3 ¹	15.7	14.0	10.5	11.7	10.9	11.4	13.6 ¹	9.5	11.7	10.4
November . .	2.9	3.7	16.1	14.2	10.2	11.5	10.8	11.0	13.5 ¹	10.0	12.1	11.0
December . .	3.2	6.0	16.2	13.8	9.3	10.6	10.7	10.4	11.9 ¹	9.8	11.1	11.1
Average for Year . .	2.4	2.4	14.8 ¹	15.2	11.3	11.7	10.3	11.3	12.5 ¹	9.7	10.8	10.5

Persons directly affected by trade disputes are not included.

¹ In these months and years disputes in the coal industry affected employment in other industries.

DIAGRAM VIII.—UNEMPLOYMENT, 1920 TO 1929.



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in 1923, or by the Government subsidy in the Autumn of 1925. This group as a whole accounts for about one third of total unemployment.

The next group contains industries which have been developing, and building for which the demand has been only limited by its expense and restrictions. Only in the electrical trades and in the motor industry has unemployment been relatively low throughout the period.

In the third group we have all other insured industries, which in general have not been affected by special circumstances. The number of males unemployed has varied little during six years, and has remained near 10 per cent.

To sum up, unemployment has been widely distributed among industries and in total has remained at a nearly uniform high level from 1923 or 1924 to 1929.

TABLE XLII.—UNEMPLOYMENT. SELECTED INDUSTRIES.

Year.	Numbers Unemployed.						Percentages Unemployed.		
	Month of April throughout.								
	1923.	1924.	1925.	1926.	1927.	1928.		1929.	
Coal	000's. 39	000's. 25	000's. 145	000's. 97	000's. 218	000's. 208	000's. 175	April. 2·0	April. 15·8
Shipbuilding	106	80	80	84	58	48	46	29·9	23·1
Marine engineering	— ²	11	12	14	10	7	6	17·5	10·6
Iron and steel manufacture	— ²	48	66	48	41	47	37	18·2	16·5
General engineering	— ²	104	80	69	64	55	51	16·4	9·6
Cotton and Wool ¹	126	98	83	82	64	73	102	11·6	14·4
Total	— ²	366	466	394	455	438	417	11·0	14·3
Constructional engineering	— ²	3	3	3	3	3	3	12·6	12·8
Bricks, etc.	7	3	4	4	4	5	8	5·9	10·9
Building and public works	125	87	83	79	90	114	116	10·4	12·0
Electrical engineering and apparatus	— ²	8	8	9	9	8	8	7·0	6·0
Motor vehicles	— ²	12	12	11	12	13	11	7·0	5·3
Silk and artificial silk ¹	2	2	4	3	4	3	7	5·4	9·6
Total	— ²	115	114	109	122	146	153	9·3	10·4

FOREIGN TRADE. UNEMPLOYMENT

Other industries and occupations :

Males	— ²	450	492	431	415	410	456	10.0	9.8
Females	178	188	220	160	141	134	155	7.6	5.7
Totals :									
Males	1,032	869	1,015	880	951	945	960	10.2	11.1
Females	252	250	277	214	182	183	221	8.4	6.8
All	1,284	1,119	1,292	1,094	1,133	1,128	1,181	9.7	9.9
Percentages									
Male	12.1	10.2	12.0	10.1	10.8	11.0	11.1		
Female	7.9	8.4	9.1	6.7	5.7	5.7	6.8		
Males, excluding coal	13.5	11.6	12.0	10.4	9.6	9.9	10.4		

¹ Males and females. In other cases males only.

² All the engineering industries were massed together in 1923, as were all vehicles. The numbers concerned are included in the total.

ECONOMIC CONSEQUENCES OF THE WAR

In Germany unemployment became considerable after the stabilization of the mark in January 1924. The table below gives some indication of its movement and severity.

The incidence of unemployment has been comparable with that in Great Britain, but subject to greater fluctuation.

TABLE XLIII.—UNEMPLOYMENT IN GERMANY.

	Percentage of Members of Trade Unions.	
	Unemployed.	On Short Time. Monthly Average.
1923, Jan. to Oct. .	5.5	} Not stated.
1923, Nov. and Dec.	16.2	
1924 . . .	14.7	17.0
1925 . . .	5.3	7.2
1926 . . .	18.2	16.9
1927 . . .	9.1	3.8
1928 . . .	8.3	5.3
1929 . . .	13.0	7.4

In the United States there have been severe waves of unemployment, but there are no definite measurements of the amount.

CHAPTER IX

NATIONALISM AND INTERNATIONALISM

THE years that followed the Armistice have been marked by two conflicting tendencies, each with direct influence on economic, as well as political, changes. From the table of national areas on pp. 42-3 it is seen that alterations of territory took place after the war in all European countries except Norway, Sweden, Holland, Luxemburg, Switzerland, Spain and Portugal (excluding the minor independencies, Monaco, San Marino, Liechtenstein and Andorra) and that as a result sixteen formerly existing countries now are twenty-three.¹ Each of the newly constituted independent nations, viz. South Ireland, Poland, Dantzic, Finland, Esthonia, Lat-

¹ Or twenty-four, since Iceland is now independent of Denmark. More if we separate Ukrainia, White Russia, Georgia, Armenia and Azerbaijan from Soviet Russia, and the Vatican from Italy.

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via, Lithuania, Czechoslovakia, and Yugoslavia, as well as France and Italy which have extended their domain, is acutely conscious of the realization, at least in part, of its national aspirations ; and many of them have taken steps to increase their economic independence. This policy is the result of several influences ; one is of pure animosity to or jealousy of the former sovereign nation from which the country is freed, and a boycotting of its goods ; another is the desire to be independent of possibly hostile countries for essential supplies ; a third is the determination to foster national manufactures, which developed in the war, and to redevelop industries alleged to have been lost during the time of subjugation. To this must be added that all the cruder and more ignorant arguments for Protection in general have had more than their former vogue during the period of instability of currency and of trade. The actual hindrances to trade in the years following the war were not only due to systems of protective tariffs arranged for definite and enduring purposes, but to continual changes, to temporary prohibitions, and sporadic bonuses, to ignorance of what tariffs existed at any

given time, and to the multiplicity of frontiers, each with its own varying system of customs, that trans-continental trade had to cross. These artificial obstacles to the rehabilitation of inter-continental trade were so serious, that, especially at the Geneva Conference of 1927, determined efforts were made to reduce them. Some success has been achieved in the direction of stability and order, and as shown in Chapter VIII, the actual severity of the tariffs of formerly existing nations is not much greater than before the war. But the injurious effect on trade from the mere increase in the number of countries with protective tariffs and in the number of different goods subject to tariffs remains.

It is a paradox that at the same time that the nations are cultivating their own independence, the field of international action has widened. The actual carrying out of the terms of the Treaty of Versailles and of subsequent treaties necessitated a great amount of joint action, first on the part of the Allies and then of other nations also. Besides delimitation of territories, the long-drawn-out problem of Reparations could only be solved by agreement between all the Powers concerned. The

principal organ for the settlement of more purely economic questions has, however, been the League of Nations and the associated International Labour Organization.

From the economic standpoint perhaps the most important function of the League and the I.L.O. is to emphasize the existence of an international point of view, and to provide the means of examining problems that affect several nations, in nearly impartial surroundings and by experts and other persons specially qualified to understand them. Though it is a very long step between the scientific examination of a question and the appropriate action by a number of nations, whose interests clash, yet such Conferences as that on currency at Brussels in 1920, and on the economic situation generally at Geneva in 1927, have a definite educative effect and enable persons of different nationalities to understand each other's point of view. The mere difficulties of language are diminished by the frequent intercourse of the group of the internationally minded. When circumstances force joint action of any kind, it can now be taken with much fuller knowledge of the facts and conditions than in former times.

The Report of the Geneva Conference, to which reference has been made in former Chapters, is a very important document, containing as it does a systematic review of the European situation and recommendations for overcoming "the economic difficulties which stand in the way of the revival of general prosperity." These recommendations were adopted by delegates and experts from fifty different states, unanimously except for the abstention of the Russian ¹ and the Turkish delegations. The keynote to its more important resolutions is found in the paragraph "Whatever the particular subject under discussion, it became apparent from the facts and evidence presented to the Conference, that each nation's commerce is to-day being hampered by barriers established by other nations, resulting in a situation, especially in Europe, that is highly detrimental to the general welfare." Accordingly it recommended the abandonment of prohibitions to Import or Export, the simplification of customs formalities, reduction of the number of items in the Tariff lists, and uniform definitions of foods. Further the Con-

¹ The Russian delegates, however, voted for many of the resolutions.

ference condemned the frequent changes of tariffs that took place, and recommended that commercial Treaties should be concluded for as long a period as possible.

But apart from the need of simplification and stability of tariffs, there was the question of the actual severity of the existing tariffs. The Conference, without pronouncing on the general merits of Free Trade or Protection, reached the following conclusion :—

“ In view of the fact that harmful effects upon production and trade result from the high and constantly changing tariffs which are applied in various countries ;

And since substantial improvement in the economic conditions can be obtained by increased facilities for international trade and commerce ;

And in view of the fact that tariffs, though within the sovereign jurisdiction of the separate States, are not a matter of purely domestic interest but greatly influence the trade of the world ;

And in view of the fact that some of the causes which have resulted in the increase of tariffs and in other trade barriers since the war have largely disappeared and others are diminishing ;

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The Conference declares that the time has come to put an end to the increase in tariffs and to move in the opposite direction."

Certain recommendations for carrying out this aim are then detailed.

The League of Nations set up certain machinery with a view to carrying out the resolution of the Conference. It is claimed that it has arrested the upward movement of tariffs and secured some other successes in the diminution of trade barriers other than tariffs ; but there has been no downward movement of tariffs, and in 1929 the general position was much the same as in 1927. In consequence the League decided to invite Governments to confer on the suggestion of a Tariff Truce for two years or more, and a conference took place early in 1930 without attaining results of any great importance.

That discussion is so prolonged, decision hesitating, and ratification of accepted resolutions so slow is unavoidable, from the nature of the case. National interests are only common over a considerable but undefined range ; quite usually an arrangement that is beneficial to the majority is injurious to a minority, and even when a

compromise is reached legal action can only be secured by convincing a number of Parliaments in a political atmosphere, where ignorance often prevails. It is here that the strong national sentiments have power to prevent beneficial international action.

It is not proposed to recount the numerous useful actions of the League in the settlement of problems that do not arouse acute national feeling, such as the regulation of international waterways, and the financial reconstruction of Austria and of Hungary, nor the important work organized in connection with Public Health and other only partly economic spheres. Its publications are easily accessible and even a study of the catalogue of them shows the wide region of its economic activities.

The Economic Council is, of course, only one organ of the League whose principal activities are political. It is the International Labour Organization that concerns us here more closely. The International Labour Organization was set up by Part XIII of the Treaty of Versailles, and is an association of fifty-six States which recognize that " Conditions of labour

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exist, involving injustice, hardship and privation to large numbers of people, and seek to improve these conditions by common or international action." The considerable support that the I.L.O. has received is due to a curious blend of egoism and altruism, of national selfishness and international sympathy, and it is often mistaken economic theories that lead the former to give play to the latter.

Perhaps the widest spread fallacy in economic thought is that expressed by the "pauper labour" argument. It is held that a country, where the workers are paid at low rates and whose employers avoid the expenses of appliances for safety and of good working conditions, competes unfairly with a country with a higher standard, with the result either of unemployment or degradation of standard. Hence it is to the interest of any progressive nation to raise the conditions of the backward, especially at a time when the standard is being improved. As a matter of fact it has been the case in the whole epoch of international trade, that exchange of goods has continued between nations whose economic conditions have differed enormously without injury to either; for

ECONOMIC CONSEQUENCES OF THE WAR

example between China or India and England or America. A plentiful supply of cheap labour in a country from which goods are obtained is as great an advantage to the purchaser as are favourable natural conditions. The purchaser obtaining some of his commodities in return for little payment can devote his money and effort to increased output of goods for the production of which other countries have no special advantage. If there are no goods which the progressive nation can export, then it cannot pay for the foreign goods, and trade ceases. Broadly speaking, it is a pecuniary advantage to one nation, if the inhabitants of others will work hard and for little remuneration in producing needed goods, just as it is an advantage if they develop their natural resources or increase their efficiency.

There are two important exceptions to this general principle, both relating to periods of change. If England and Japan are both selling cotton goods to India, and if Japanese workmen are equally efficient and work longer hours at smaller weekly pay than English, they will obtain the Indian market and there will be unemployment in Lancashire. Equilibrium will only

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be restored when the Lancashire capital and labour can be transferred to the production of goods that will replace those formerly imported in payment for the lost exports of India. This kind of process has continually taken place as new sources of materials have been found or inventions have developed new methods ; but, unless the change is very gradual, the re-organization is painful and unemployment and distress are caused. The antidote to competing cheap labour is not, however, artificial protection, but the greater efficiency of well-paid labour.

The other exception, and one that concerns especially the International Labour Organization, is when it is desired to improve the conditions of labour, in circumstances where the improvement does not result immediately in greater efficiency. If several nations manufacture matches, and some abolish the use of dangerous phosphorus and otherwise make expensive arrangements for the health and safety of their operatives, these will lose both their foreign and home trade to the less scrupulous manufacturers. Improvement is then only possible at the cost of destroying the manufacture, and the ultimate demand for

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other goods, which the change tends to bring about, gives little help to the persons whose usual occupation is gone. The argument here is similar to that which supports all Factory Legislation.

But whether the participators are selfish, illogical and shortsighted or not, the result of international efforts to improve working conditions is from a wide aspect beneficial ; unless it is carried to the point of destroying the means of living of groups, whose faculties or physique or opportunities necessitate long hours of work or risks if they are to earn enough to procure a living at all.

International co-operation in labour matters had been organized by Trade Unions before the war, partly for the purposes already described, and partly to strengthen Labour in its world-wide quarrel with Capital. The new Organization differs from the old in that its Governing Body consists of twelve representatives of Governments, six of workmen and six of employers, and that its method of procedure is to draft conventions or recommendations which need the sanction of Governments to make them effective. It has an evident field of action in such ques-

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tions as the regulation of provisions for safety in ships, and in the condition of life and work of seamen, and in other cases where more nations than one are necessarily involved. It performs a very useful function in collecting and publishing statistics of hours, wages, unemployment, etc., and in analysing and defining the various national usages of the semi-technical terms employed, and in publishing, explaining and codifying, legislation, affecting labour. It has been as successful as could be expected in what may be described as International Factory Legislation affecting dangerous trades. But its best known action has been in the effort to obtain a legal eight hours day in all nations.

Though the Industrial Conferences in London, as a result of which hours of work were reduced throughout the industries of Great Britain, preceded the International Labour Conference at Washington of October 1920, it is the latter that gave the general impetus to the establishment of a legal eight hours day. In Great Britain, in fact, there is not yet any general legal restriction to eight hours, though there is no important industry except agriculture in which the normal working

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week exceeds 48 hours. The difficulty of framing an Act, that allows sufficient elasticity for emergencies and special conditions of unusual types of work and of climate, has prevented general ratification of the Washington Convention. But the reduction of hours is generally effective in many countries and in Great Britain, at least, this change and the consequent gain of leisure has been the main economic advantage that has generally accrued to the working class since 1914. It is therefore interesting to study briefly the effects of the general institution in industry of a maximum normal working week of 48 hours.

In Great Britain, when working hours have been reduced, the week's wage if on a time basis has generally been unchanged, while where piece-rates are paid the rate has been raised by about 15 per cent. so that at the same rate of output the week's earnings shall be as before. In some cases piece-workers have been able to concentrate as large an output as before into the shorter time and have thus increased their earnings. The change took place at a period when wages might have risen in any case, and, as was not unfrequently the

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case before the war, increased leisure was deliberately preferred to increased earnings. In some continental countries the alteration was easier because while currency was depreciating employers were making high profits, while the rates of wages tended to lag behind, since their purchasing power was not reduced so rapidly in respect of home-produced goods as was the value of currency in the world-market. Employers were more willing to concede advantages in working conditions than to raise the nominal rates of wages, since it would be difficult to force a reduction when presently prices fell.

But it is contended that reduction of working-hours does not necessarily mean an increased cost of output, at any rate after a period of adjustment. There is a saving in the abolition of pre-breakfast work, which may be inefficient, and of the loss of time in starting and stopping three times instead of twice each day; or since operatives are less fatigued, the last hour's work is better than before. There is a stimulus to the managers to aim at a better detailed arrangement of work, so as to avoid the standing idle of machines or operatives. More generally the higher cost of an hour's

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work gives a strong inducement to employers to economize the use of labour by improving organization and machinery. But success in the introduction of more labour-saving machinery depends on the willingness of the operative to make the best use of it. In fact the actual reduction of cost depends on the stimulation of energy on the part of the worker and of initiative on the part of employers, and co-operation and willingness on both sides. The workers not only come to their task fresher after a longer period of leisure, but also have had more time for self-development and recreation, so that gradually there is an increase of intelligence, health, and contentment. These rather undefinable results have in fact been the consequence of better working conditions in the past.

It is not generally possible to compare output before and after the introduction of an eight hours day, for other circumstances have often changed in the same period. But an investigation covering many countries was made by Mr. E. Millard (*International Labour Review*, 1925 and 1926) which may be summarized in two quotations. "The foregoing account would

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seem to justify the conclusion that broadly speaking the post-war reduction in the working day has been a factor in technical progress, from the point of view both of improvements in equipment and of organization." "Taken as a whole [the results of the inquiry] are encouraging. They show that the reform has not only brought about moral, social and intellectual progress, but that it has both promoted technical progress by stimulating improvements in equipment and organization, and has also led to a more rational and economical use of the productive power of the human agent."

Nevertheless, the possibility that unemployment may be increased, when wage-rates are raised by this or any other method must be kept in view, and changes should only be made when the circumstances are favourable.

International common action has to some extent increased not only under the auspices of Geneva, but also as a necessary reaction against or consequence of nationalism in particular industries. This is only very indirectly attributable to the war and needs only the briefest description. Industrial companies handling materials of

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world-wide use and for a world-market, such as oil, chemicals, steel and rubber, operate in many countries or are allied to similar companies abroad. The height of protective tariffs, the development of protected companies, and wasteful competition, have led increasingly to an organized division of the world-market among the various productive and distributive firms or among branches of one cosmopolitan firm; so that at its best, the world's resources are economically exploited and their products rationally distributed, and at its worst consumers are forced to deal with gigantic monopolies.

A counterpart of this tendency is "rationalization," by which word the compilers of the Final Report of the World Economic Conference at Geneva understand "the methods of technique and of organization designed to secure the minimum waste of either effort or material. It includes the scientific organization of labour, standardization both of materials and products, simplification of processes and improvements in the system of transport and marketing."

"The Conference considers that one of the principal means of increasing output,

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improving conditions of labour and reducing costs of production is to be found in the rational organization of production and distribution."

" Its judicious and constant application is calculated to secure :

(1) To the community greater stability and a higher standard in the conditions of life ;

(2) To the consumer lower prices and goods more carefully adapted to general requirements ;

(3) To the various classes of producers higher and steadier remuneration to be equitably distributed among them.

It must be applied with the care that is necessary in order, while at the same time continuing the process of rationalization, not to injure the legitimate interest of the workers ; and suitable measures should be provided for cases where during the first stages of its realization it may result in loss of employment or more arduous work.

It requires, further, so far as regards the organization of labour in the strict sense of the term, the co-operation of employees, and the assistance of trade and industrial organizations and technical experts."

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There is nothing to add to this summary, unless we entered into considerable detail ; but the whole problem of reduction of hours, of international competition and co-operation and of rationalization is well illustrated by the recent history of the coal-mining industry which is fresh in everyone's memory.

There is no doubt that the experiences and the necessities of the war resulted in co-ordination and unification of the scattered industries of Great Britain. As the Government took control or direction of one industry or group of activities after another, steps were taken to organize them on a national basis, and to deal with representative bodies instead of with individuals. When control was gradually relaxed, in some cases a new organization was necessary to replace that which had lapsed, in others the improvised co-ordination continued. The general result has been a diminution of provincialism in industry and in labour organization, without any marked increase of Nationalism in the socialistic sense.

Though representative national bodies existed before the war both for industry

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and for labour as a whole and for separate industries, their power has become greater and their function more definite. During the war wages were standardized in occupations where no regular machinery for negotiation had existed or where there were only local agreements; rates in various districts were arranged systematically and changes took place in a co-ordinated manner in all districts at once under the control of the Ministry of Munitions or other official bodies, and though there were some local disputes they were settled in relation to national wage policy.

The National Industrial Conference of 1919 (see p. 233) did not result in any permanent or national organization for preventing dislocation of industry or settling disputes, and since then each industry has gone its own way in arranging its procedure for dealing with wages, hours, organization etc., but on a national rather than a local basis. But Labour Unions are closely related to the Trade Union Congress, so that it was possible to call the "General Strike" of 1926 with an extraordinarily prompt and universal response; and employers have the two organizations, The National Confederation

ECONOMIC CONSEQUENCES OF THE WAR of Employers' Organizations, and the Federation of British Industries, whose aims are to promote the interest of industry in the region of national policy and to co-ordinate action within the country. The three organizations just named set up a joint Conference in December 1929 for discussion on all matters of economic interest of British Industry. This Conference has no executive power, and there is no machinery for adjusting wages in different industries on any equitable or economic basis.

The extension of the Unemployment Insurance scheme, the regulation of wages in agriculture, and inclusion of more industries under the Trade Boards which determine minimum wages, are all due in part to the conditions following on the War. The more liberal granting of Old Age and Widows' Pensions and other kindred social expenditure are, on the other hand, developments which would probably have taken place in the natural course of events.

The general result has been that the region, in which individual action and individual responsibility have scope, is narrowed. The sense of common interests

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is more wide-spread, the injury of unrestricted competition is realized ; and the organization and co-ordination necessary for common action on a national scale have nearly equal power in compelling or restricting individual action, whether they are based on legislation or voluntary combination.

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